

# EXHIBIT 2

# Consolidated Supervised Entity (CSE) Overview

May 5, 2005

LEHMAN BROTHERS

## Agenda

I.	Introduction & Lehman Brothers Overview	Dave Goldfarb	10:00 to 10:20 AM
II.	Business Unit Overview	Chris O'Meara	10:20 to 10:50 AM
III.	Corporate Governance Overview	Beth Rudofker / Ed Grieb	10:50 to 11:30 AM
	Break		11:30 to 11:40 AM
IV.	Corporate Advisory Division		11:40 to 12:40 AM
	A. CAD Overview	Joe Polizzotto	
	B. Compliance & Regulation	David DeMuro	
	C. Transaction Management	Scott Willoughby	
	D. Corporate Audit	Beth Rudofker	
	Lunch		12:40 to 1:25 PM
V.	Finance Division		1:25 to 2:25 PM
	A. Overview	Chris O'Meara	
	B. Financial Control	Ed Grieb	
	C. Product Control	Gerry Reilly	
	D. Treasury	Ian Lowitt	

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## Agenda (Cont'd)

VI. Risk Management	Madelyn Antoncic	2:25 to 3:10 PM
Break		3:10 to 3:20 PM
VII. Operations	Mark Malin	3:20 to 3:40 PM
VIII. Information Technology		3:40 to 4:10 PM
A. Overview	Jon Beyman	
B. IT Production Environment	Jon Beyman	
C. BCP	Bridget O'Connor	
IX. Examination Process & Closing Remarks	Robyn Grew/ Laura Vecchio	4:10 to 4:25 PM

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## Introduction and Lehman Brothers Overview

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## Discussion Topics

- ◆ Welcome Comments
- ◆ Evolution of the Firm

## Lehman Brothers Profile

**In the ten years since going public, Lehman Brothers has grown substantially, transforming itself into a far larger and more diversified financial institution**

- ◆ Revenues have grown approximately four times; headcount has more than doubled
- ◆ Capital and Stockholder's Equity have grown approximately four times, and our Credit Rating has improved to A1 (Moody's)
- ◆ Significant investments made in upgrading our infrastructure
- ◆ The Firm has expanded into new businesses, leveraging off existing strengths

## Delivering on Our Strategy: Objectives

**This growth has been the result of executing on a consistent and focused strategy which is comprised of a number of objectives**

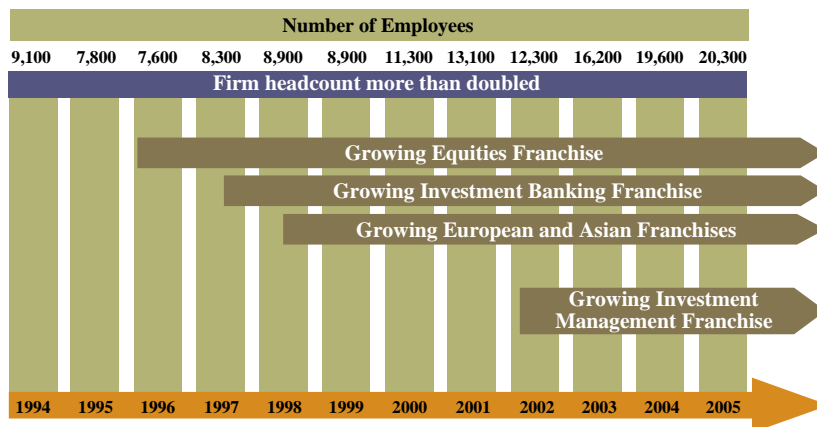
- ◆ Growth and Diversification through a Client Focused Business Model
- ◆ Core Competencies: Internal Controls, Risk, Capital and Expense Management
- ◆ Emphasis on Our “One Firm Culture”

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## Delivering on Our Strategy: Growth and Diversification Timeline

**The Firm’s strategy emphasizes diversification – both product mix and geographic – and a client-driven business model to deliver optimum results cross-cycle**



2005 headcount data as of 2/28/2005.

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## Core Competencies

The maintenance of a strong internal control environment is core to our Firm. This includes multi-dimensional support and control organizations independent of our businesses, and a culture which reinforces this principle throughout the organization. Our strict discipline in managing risk, capital, and expenses are core competencies of the Firm.

<b>Internal Control</b>	<ul style="list-style-type: none"> <li>◆ Multi-dimensional support and control organizations independent of business units</li> <li>◆ Management Oversight and Transaction Approval Committees to oversee risk activities</li> <li>◆ Reinforced in culture and through high level of employee ownership</li> </ul>
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>◆ Sophisticated modeling</li> <li>◆ Conservative risk appetite</li> <li>◆ Rigorous process for capital commitments</li> </ul>
<b>Capital Management</b>	<ul style="list-style-type: none"> <li>◆ Allocate capital given risk / reward dynamics (through risk appetite)</li> <li>◆ Total capital (long-term debt plus total stockholders' equity) has been increasing steadily; conservative liquidity profile</li> <li>◆ Net leverage has decreased over time, despite balance sheet growth</li> <li>◆ Manage capital base actively, including stock buy-backs</li> </ul>
<b>Expense Management</b>	<ul style="list-style-type: none"> <li>◆ Maintain variable nature of expense base, primarily compensation</li> <li>◆ Strong discipline in managing non-personnel expenses with targeted investments in infrastructure and new business opportunities</li> </ul>

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## Culture/One Firm

Our culture stresses principles underlying a strong control environment with teamwork, integration, accountability and integrity in all that we do. These values are reinforced by the consistency and collective experience of our senior management team and by our significant level of employee ownership

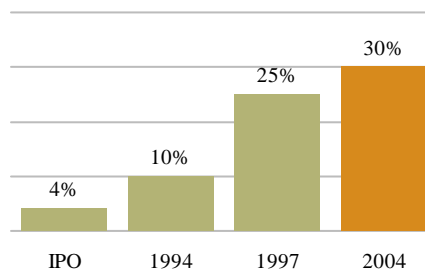
### Executive Committee

The members of the Executive Committee have on average 19 years of service at Lehman Brothers

Richard S. Fuld, Jr.	Chairman and Chief Executive Officer	36
Joseph M. Gregory	President and Chief Operating Officer	31
Stephen M. Lessing	Head of Client Relationship Management	25
Hebert H. McDade III	Capital Markets-Global Head of Fixed Income	23
Bradley H. Jack	Office of the Chairman	21
Theodore P. Janulis	Global Head of Investment Management Division	20
Robert S. Shafir	Capital Markets-Global Head of Equities	15
Jasjit S. Bhattal	Chief Executive Officer, Asia	12
Hugh E. McGee III	Global Head of Investment Banking	12
David Goldfarb	Chief Administrative Officer	11
Jeremy M. Isaacs	Chief Executive Officer, Europe & Asia	9
Roger B. Nagloff	Chief Operating Officer, Europe	8

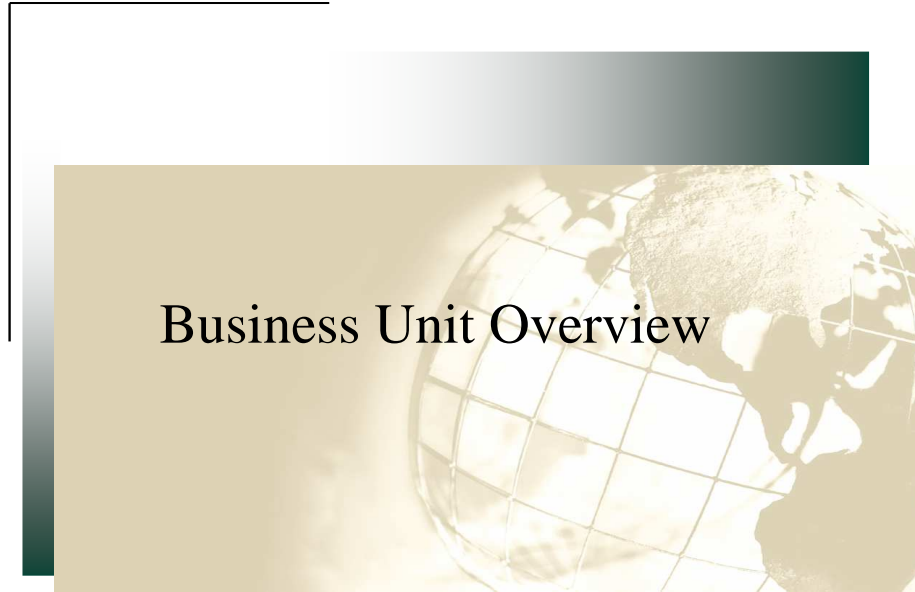
### Employee Ownership

Our employees think and act like shareholders, with a significant portion of their net worth invested in the Firm



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## Business Unit Overview

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## Business Unit Overview

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## Discussion Topics

- ◆ Business Unit Overview
- ◆ Internal Control Environment
- ◆ Financial Performance and Strength

## Investment Banking Overview

**The Firm's Investment Banking division is fully matrixed across products, regions, and industry groups**

Product		Industry
Global Finance	M&A	◆ Communications
◆ Debt Capital Markets	◆ Advisory	◆ Consumer/Retail
◆ Equity Capital Markets	◆ Restructuring	◆ Financial Institutions
◆ Leveraged Finance		◆ Healthcare
◆ Private Placements		◆ Industrial
		◆ Media
		◆ Natural Resources
		◆ Power
		◆ Technology
		◆ Real Estate
		◆ Financial Sponsors
Region		
◆ America		
◆ Europe		
◆ Asia		



## Capital Markets: Fixed Income

**Lehman Brothers offers integrated coverage across the entire spectrum of fixed income products (excluding commodities)**

Governments and Agencies	Mortgages	Municipals and Public Finance	High Grade
◆ Ranked # 1 in Governments by <i>Greenwich Associates</i> survey in 2004	◆ Ranked #1 in MBS by <i>Greenwich Associates</i> survey in 2004	◆ Ranked # 3 in origination by Thomson in 2004 and led the largest muni-bond deal ever for the state of California	◆ Ranked #1 in Investment Grade by <i>Greenwich Associates</i> survey in 2004
Derivatives	Foreign Exchange	Structured Finance/ABS	High Yield
◆ Ranked #2 in Interest Rate Derivatives by <i>Greenwich Associates</i> survey in 2004	◆ Top ranking in <i>Bloomberg</i> Currency Survey in 2003	◆ Ranked #1 in ABS by <i>Greenwich Associates</i> survey in 2004	◆ Ranked #3 in High Yield by <i>Greenwich Associates</i> survey in 2004
Futures	Financing	Global Commercial Real Estate	Structured Credit and CDOs
◆ Named "Best Site for Exchange Traded Derivatives Trading" by <i>Euromoney</i> in 2002	◆ Named "Best Site for Repo" by <i>Euromoney</i> in 2003	◆ Ranked #2 in CMBS by <i>Greenwich Associates</i> survey in 2004	◆ Ranked #1 CDO research by <i>Institutional Investor</i> in 2004

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## Capital Markets: Equities

**Our Equities Capital Markets business offers clients a wide range of services**

Execution Services	Leveraged Businesses	
Single Stock	Convertibles	Volatility
◆ New Issues	◆ New Issues	◆ Listed & OTC
◆ Secondary	◆ Secondary	◆ Stock Options
		◆ Index Options
		◆ Exchange
		◆ Traded Funds
		◆ Structured
		◆ Equity Products
		◆ Futures
	Equity Finance	Relative Value
	◆ Stock Lending/ Borrowing	◆ Risk Arbitrage
	◆ Prime Brokerage	◆ Tender Offers

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## Investment Management

**Investment Management offers a broad array of investment and asset management products and services to its clients**

Private Investment Management		Asset Management	
Investment Services	Portfolio Advisory	Neuberger Berman	LB Asset Management
<ul style="list-style-type: none"> <li>◆ Investment Representatives</li> <li>◆ Investment Solutions</li> </ul>	<ul style="list-style-type: none"> <li>◆ Asset Allocation and Portfolio Strategy</li> <li>◆ Research and Manager Selection</li> </ul>	<ul style="list-style-type: none"> <li>◆ Private Asset Management</li> <li>◆ Funds                             <ul style="list-style-type: none"> <li>– Mutual Funds</li> <li>– Sub-advisory</li> <li>– Managed Accounts</li> <li>– Closed-end Funds</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Institutional                             <ul style="list-style-type: none"> <li>– Equities</li> <li>– Fixed Income</li> <li>– Cash</li> </ul> </li> <li>◆ Absolute Return Strategies                             <ul style="list-style-type: none"> <li>– Single Manager Hedge Funds</li> <li>– Hedge Fund Portfolios</li> </ul> </li> </ul>
Private Equity			
<ul style="list-style-type: none"> <li>◆ Merchant Banking</li> <li>◆ Venture Capital</li> <li>◆ Real Estate</li> <li>◆ Fixed Income Related Investments</li> </ul>	<ul style="list-style-type: none"> <li>◆ Private Funds Investments</li> <li>◆ Private Fund Marketing</li> </ul>		

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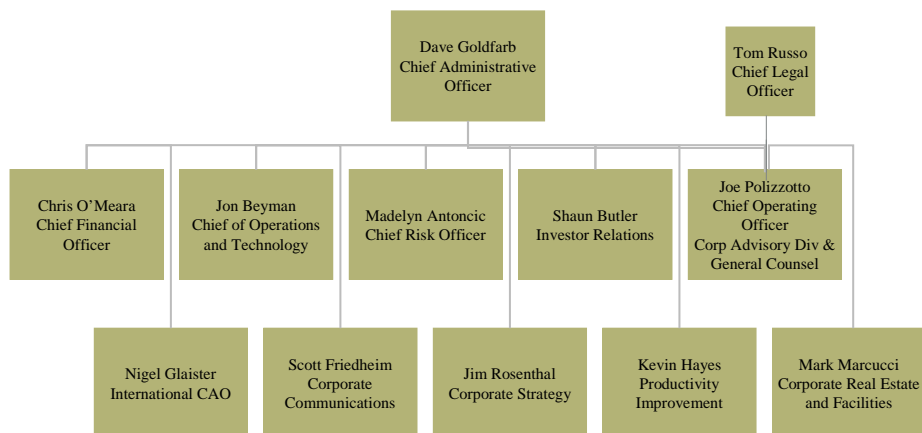
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## Internal Control Environment

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## Internal Control Environment

The Chief Administrative Officer oversees the support and control functions of the Firm.



## Internal Control Environment

- ◆ A strong internal control environment with multiple overlapping and reinforcing elements is an essential part of Lehman
- ◆ Building and professionalizing the internal control environment was a major strategic priority after the spin-off from American Express in 1994
  - Developed the Product Control function in Finance
  - Integrated lesson learned in liquidity management in Fall of 1998 into industry leading funding framework
  - Built comprehensive and rigorous market and credit risk models
  - Invested in Technology, Operations, Compliance, Legal and Audit functions
- ◆ Culture reinforces and strengthens the internal controls. The principles underlying this – teamwork, integration, accountability and integrity – are all reflected in Lehman's values
- ◆ The level of employee ownership reinforces internal control culture and discipline
- ◆ Risk in our business cannot be eliminated, but can be substantially mitigated; we recognize the need to maintain a strong and comprehensive internal control environment to mitigate risk to the greatest extent possible

## Internal Control Environment

**The internal control environment needs to be broad and comprehensive to address the full set of risks**

Risk Types	Potential Impact
◆ Market, Credit, Stress Event	◆ Impact on earnings from market, credit and stress event risks. Taking on more risk than a prudent risk appetite would allow
◆ Liquidity	◆ Loss of confidence from creditor impacts ability to raise cash in the unsecured (and possibly secured) market place
◆ Operational	◆ Cannot clear or settle trades due to failure in operational environment ◆ Trades not booked, or not booked correctly
◆ Technology	◆ Systems malfunction, potentially due to worms or viruses
◆ Legal	◆ Firm is sued by investor or bankruptcy estates
◆ Regulatory	◆ Regulators regard a specific business or reporting practice as unacceptable or not in compliance with regulations ◆ Insufficient capital in regulated entities
◆ Accounting/ Position Valuation	◆ Financial Statements do not accurately reflect firm's performance or financial condition. Restatement of prior period results
◆ Reputational	◆ Firm's business practices reveal behavior incompatible with high ethical standards, and brand affected; customers and clients less willing to do business with Firm, and negative impact on employee morale, retention, recruiting
◆ Disaster	◆ A disaster causes significant interruption to the Firm's businesses, causing earnings shortfalls and loss of confidence by clients and creditors

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## Internal Control Environment

**We have independent functions dedicated to managing these risks. We also have series of overlapping/intersecting additional functions and processes that come together to supplement the primary internal control**

Risk Types	Primary Internal Control	Select Other Overlapping/Intersecting Controls
◆ Market, Credit, Stress Event	◆ Trading Management, Risk Management, Product Control	Independent Support Groups ◆ Risk Management ◆ Product Control/Financial Control ◆ Middle Office/Operations ◆ Compliance/Legal/Transaction Management ◆ Internal Audit
◆ Liquidity	◆ Treasury ◆ CFU and EFG	
◆ Operational	◆ Operations and Middle Office	
◆ Technology	◆ Technology	
◆ Legal	◆ Corporate Advisory Group	
◆ Regulatory	◆ Regulatory Control	
◆ Accounting/ Position Valuation	◆ Financial Control and Product Control	
◆ Reputational	◆ Transaction Review Committees	
◆ Disaster	◆ Disaster Recovery Site and Planning in Place and Tested	
		Select Management Oversight Committees ◆ Executive Committee ◆ Management Committee ◆ Operating Exposures Committee ◆ Finance Committee ◆ Capital Markets Committee ◆ Risk Committee ◆ Conflicts Task Force
		Select Transaction Approval Committees ◆ New Products Committee ◆ Investment Banking Commitment Committees

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## Financial Performance and Strength

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## Financial Performance and Strength

In the ten years since going public, Lehman Brothers has successfully transformed itself into a far larger institution

	1994 <sup>1</sup>	1999	2004
Revenues	\$2,987	\$5,340	\$11,576
Net Income	\$123	\$1,132	\$2,369
Pretax Margin	7.0%	30.5%	30.4%
Return on Tangible Equity	4.3%	21.4%	24.7%
Stockholders' Equity	\$3,395	\$6,283	\$14,920
Total Capital	\$14,716	\$37,684	\$71,406
Employees	8,512	8,893	19,600

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1. Annualized, 1994 was an 11month reporting period  
2. Dollar values in millions

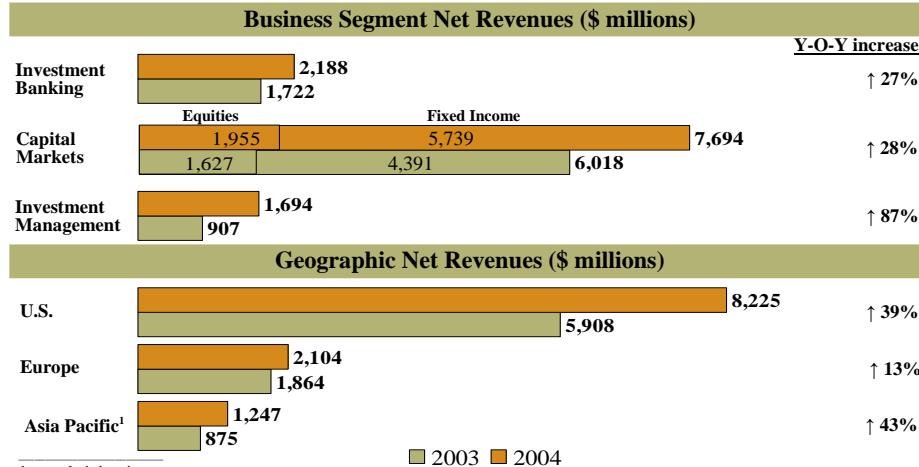
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## Financial Performance and Strength

Our record results in 2004 were driven by all segments and regions

Net Revenues of \$11.6 billion, up 34% from a year ago  
Net Income of \$2.4 billion, up 39% from a year ago  
Diluted EPS of \$7.90, up 24% from a year ago  
ROE of 17.9%  
ROTE of 24.7%



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## Corporate Governance

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## Discussion Topics

- ◆ Introduction
- ◆ Board of Directors
- ◆ Executive Management
  - Culture and Policies
  - Oversight Committees
- ◆ Independent Control Functions
- ◆ Sarbanes Oxley Compliance

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## Introduction

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## Corporate Governance

- ◆ Corporate governance is critical to a strong risk management and internal control framework and is grounded in the realization that nothing is as valuable as a company's reputation.
- ◆ Protecting the franchise has always been at the heart of the Lehman Brothers culture.
- ◆ Our commitment to the highest standards of governance and ethical behavior is core to who we are and what we are as a Firm.
- ◆ These standards are expected from all employees from top to bottom. Each employee is responsible for risk management and for "doing the right thing".
- ◆ Our policy of compensating employees with a large portion of deferred stock has reinforced this philosophy. With the level of employee ownership at around 30%, employees think and act like owners.
- ◆ The Firm has committed many of its best people to its control infrastructure. We support and reward people in control positions, so we can continue to attract qualified people to these roles.
- ◆ We have also invested significantly in technology to support our control infrastructure.
- ◆ Our corporate governance framework relies on a multi-layered control infrastructure with functions that operate in a coordinated manner. This ensures the company maintains the highest level of discipline in preserving its financial strength and reputation.
- ◆ We will be covering these more specifically throughout the rest of this presentation, including the Board of Directors, Executive Management and Oversight and the Firm's independent control functions.

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## Board of Directors

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## Board of Directors – Overview

- ◆ A key to good corporate governance is an engaged Board of Directors with the independence and experience to oversee management effectively.
- ◆ The Board meets all NYSE and SEC independence requirements.
  - Only one member of management is on the Board
- ◆ Overall director attendance at Board and committee meetings during fiscal 2004 averaged 99.3%.
  - The Firm also expects each director to attend the Annual Meeting of Stockholders, and each director attended the 2005 meeting.
- ◆ Six of the Firm's directors are former CEOs of major companies.

## Board of Directors – Members

- ◆ The Firm's CEO, Richard S. Fuld, Jr., is the only member of management on the Board and has been a director since 1990. The outside members of the Board are:

Michael L. Ainslie	Former CEO of Sotheby's	Director since 1996
John F. Akers	Former CEO of IBM	Director since 1996
Roger S. Berlind	Private investor and principal of Berlind Productions; former CEO of predecessors of our Firm	Director since 1985
Thomas H. Cruikshank	Former CEO of Halliburton	Director since 1996
Marsha Johnson Evans	President and CEO of American Red Cross	Director since 2004
Sir Christopher Gent	Former CEO of Vodafone Group Plc; Non-Executive Chairman of GlaxoSmithKline plc	Director since 2003
Dr. Henry Kaufman	Economist and former Managing Director and member of the Executive Committee of Salomon Brothers	Director since 1995
John D. Macomber	Former CEO of Celanese	Director since 1994
Dina Merrill	Vice Chairman of RKO Pictures and Actress	Director since 1988

## Board of Directors – Director Qualifications

- ◆ The Board has adopted Director criteria recommended by the Nominating and Corporate Governance Committee, which identify personal characteristics and core competencies that the Board seeks in director candidates.
- ◆ In identifying nominees for election to the Board of Directors, the Nominating and Corporate Governance Committee takes into account additional factors, which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity and the extent to which the candidate would fill a present need on the Board of Directors.
  - Independence and conflicts of interest are also considered, as is whether any candidate has special interests that would impair his or her ability to represent the interests of all stockholders.
- ◆ The Nominating and Corporate Governance Committee also takes into account the candidates' current occupation and the number of other boards on which they serve in determining whether he/she has the ability to devote sufficient time to carry out their duties.
  - Likewise, an existing director must notify the Board of any significant change in his/her primary job responsibilities in order that the Board may reassess that director's ability to serve on the Board.
- ◆ The Nominating and Corporate Governance Committee will consider director nominees recommended by stockholders and has established procedures by which stockholders may submit their nominees to the Board.
- ◆ The Board does not believe that arbitrary term or age limits on directors' service are appropriate, since it values the insight and experience of directors who have served on the Board for an extended period of time. The Board expects that its self-evaluation process will be an important determinant of Board tenure.

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## Board of Directors – Committees

- ◆ The Board has the following committees:
  - Audit Committee
  - Compensation and Benefits Committee
  - Executive Committee
  - Finance Committee
  - Nominating and Corporate Governance Committee
- ◆ Each of these Committees consists solely of independent directors and operates under a written charter adopted by the Board.
- ◆ In addition, the Board has adopted and operates under written Corporate Governance Guidelines
- ◆ The committee charters and Corporate Governance Guidelines are posted on the Firm's public web site ([www.lehman.com](http://www.lehman.com)).
- ◆ Also posted on the Firm's public web site are means for:
  - Contacting the Audit Committee regarding accounting, internal accounting controls or auditing matters
  - Contacting the non-management directors

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## Board of Directors – Meetings

- ◆ At each Board meeting, updates on financial and legal matters, as well as reports on any committee meetings since the last Board meeting, are presented to the Board. The financial update is a detailed review of results of operations and financial condition, including the performance of the Firm by business unit and by region, as well as the Firm's liquidity, capital and balance sheet leverage.
- ◆ In addition, the Board regularly receives presentations from senior management on different aspects of the Firm. Set forth below are the topics of the presentations made during 2003, 2004 and 2005 (to date):
  - Annual Budget
  - Risk, Liquidity, Capital and Balance Sheet
  - Strategic Opportunities
  - Global Capital Markets - Fixed Income Division
  - Corporate Communications, Investor Relations and Creditor Relations
  - Compliance
  - Investment Banking
  - Technology
  - Diversity
  - Global Equities Division
  - Lehman Brothers Asia
  - European Strategy
  - Security
  - Policy Relating to SARS
  - Human Resources
  - Internal Audit / Sarbanes-Oxley Section 404
  - Neuberger Berman

## Board of Directors – Meetings (Cont'd)

- ◆ The Board holds regularly scheduled executive sessions, where non-management directors meet independently of management. The presiding director of executive sessions is Mr. Macomber. The non-management directors held three executive sessions during fiscal 2004.
- ◆ In accordance with the Corporate Governance Guidelines, the Firm has established an orientation program designed to familiarize new directors with, among other things, the Firm's operations, strategic plans, Code of Conduct, executive officers and outside auditors.

## Finance Committee and Executive Committee

### ◆ Finance Committee

- The Finance Committee is comprised of the following four non-management directors: Dr. Henry Kaufman (Chairman), John Akers, Roger Berlind and Marsha Johnson Evans.
- The Finance Committee reviews and advises the Board of Directors on the financial policies and practices of the Firm, including liquidity, capital and risk management, and periodically reviews, among other things, the Firm's liquidity position, capital, balance sheet and risk; as well as major capital expenditure programs and significant capital transactions.
- The Finance Committee reviews the Budget at its January meeting. The Finance Committee's responsibilities also include annually recommending to the Board of Directors: (1) the Firm's dividend policy and (2) the Firm's share repurchase plan.

### ◆ Executive Committee

- The Executive Committee consists of Mr. Fuld, who chairs the Executive Committee, and Mr. Macomber.
- The Executive Committee has the authority, in the intervals between meetings of the Board of Directors, to exercise the authority of the Board of Directors, except for those matters that the Delaware General Corporation Law or the Restated Certificate of Incorporation reserve to the full Board of Directors.

## Audit Committee

### ◆ The Audit Committee is comprised of the following four independent directors: Thomas Cruikshank (Chairman), Michael Ainslie, Roger Berlind and Christopher Gent

- As required by the Audit Committee charter, each member of the committee has a working familiarity with basic finance and accounting terminology and practices.
- The Board of Directors has determined that Mr. Cruikshank is an "audit committee financial expert" as defined under SEC rules

### ◆ The Audit Committee's responsibilities include:

- Review of quarterly and annual financial statements
- Oversight of the independent auditors, Ernst & Young, with sole responsibility to hire and fire
- Pre-approval of all audit and non-audit services performed by Ernst & Young
- Oversight of Internal Audit
- Oversight of Compliance

### ◆ In carrying out its duties, the Audit Committee has the authority to retain outside legal, accounting or other advisors, including the authority to approve the fees and expenses of such advisors.

### ◆ In accordance with its charter, the Audit Committee conducts, at least annually, a self-evaluation.

## Compensation and Benefits Committee

- ◆ The Compensation and Benefits Committee is comprised of the following four independent directors: John Akers (Chairman), Christopher Gent, John Macomber and Dina Merrill.
- ◆ The responsibilities of the Compensation and Benefits Committee include:
  - The Firm's overall compensation philosophy
  - Approval of corporate goals for the CEO and other executive officers
  - Evaluation of the CEO and executive officers
  - Approval of compensation of the CEO and executive officers
- ◆ In carrying out its duties, the Compensation and Benefits Committee has the authority to retain outside legal or other advisors, including the authority to approve the fees and expenses of such advisors.
  - The Compensation and Benefits Committee has engaged an external compensation consulting firm specializing in the financial services industry to assist it with benchmarking and compensation analysis and to provide on-going consulting on executive compensation practices.
- ◆ In accordance with its charter, the Compensation and Benefits Committee conducts, at least annually, a self-evaluation.

## Nominating and Corporate Governance Committee

- ◆ The Nominating and Corporate Governance Committee is comprised of the following four independent directors: Dina Merrill (Chairman), Thomas Cruikshank, Marsha Johnson Evans and John Macomber.
- ◆ The responsibilities of the Nominating and Corporate Governance Committee include overseeing corporate governance and making recommendations to the Board on:
  - Board Composition
  - Board Committee Composition
  - Corporate Governance Guidelines
- ◆ In carrying out its duties, the Nominating and Corporate Governance Committee has the authority to retain outside legal or other advisors, including the authority to approve the fees and expenses of such advisors.
- ◆ In accordance with its charter, the Nominating and Corporate Governance Committee conducts, at least annually, a self-evaluation.

## Executive Management

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### Executive Management – Overview

- ◆ Strong executive management and oversight is another critical component of the Firm's corporate governance framework.
- ◆ Along with the Board, our executive management establishes mechanisms to achieve the company's goals and reinforces them day-to-day.
- ◆ The CEO and senior management have set the tone of a strong culture where integrity and risk management guide decision making.
- ◆ Key mechanisms for the Firm's executive management includes:
  - Firm and divisional mission statements
  - Policies, procedures and other operating guidelines
  - Organizational/management structures and committees for decision making

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## Culture and Policies

- ◆ Behavioral policies such as a code of ethics and code of conduct help establish and reinforce our culture. They stress the Firm's values it holds and looks for in others along with values around conducting business.
- ◆ The Firm has adopted a Code of Ethics which provides guidance to help recognize and deal with ethical issues, provides a mechanism for the reporting of unethical or unlawful conduct, and helps maintain a culture of honesty and accountability.
- ◆ The Code of Ethics satisfies both the provisions of Sarbanes-Oxley and the NYSE corporate governance rules and is posted on the Firm's public web site.
- ◆ Topics addressed by the Code of Ethics include procedures for reporting violations, conflicts of interest, safeguarding Firm and client property, compliance with applicable laws, fair dealing, and accurate accounting and documentation.
- ◆ The Code of Ethics must be read in conjunction with the Firm's long-standing internal Code of Conduct and applies to all employees.
- ◆ The Firm also maintains detailed policies covering a variety of other subjects, including insider trading, political contributions, privacy protection and money laundering prevention.

## Oversight Committees

- ◆ Lehman has established a multi-layered control infrastructure with a variety of committees to oversee day-to-day operations, including ensuring that transactions and exposures are appropriately reviewed and approved
- ◆ This committee structure stems from the Firm's culture of operating in a team oriented environment with focus on managing our risk and preserving our financial strength and reputation
- ◆ Transactions are first evaluated at the business unit and division level. Once approved there, they are also subject to a rigorous approval process at the Firm level
- ◆ The key Committees at the Firm level include:

- Executive Committee
- Management Committee
- Operating Exposures Committee
- Finance Committee
- Capital Markets Committee
- Risk Committee
- Conflicts Task Force

**Management Oversight Committees**

- New Products Committee
- Investment Banking Commitment Committee
- Bridge Loan Committee
- Investment Committee
- High Yield/High Grade/Bridge Loan Committee
- Global Equity Risk Committee

**Transaction Approval Committees**

## Executive Committee

- ◆ The Firm's **Executive Committee** is comprised of the most senior members of the Firm and is ultimately responsible for the leadership and strategic direction of the Firm. The Committee meets at least twice weekly, and more frequently as necessary. All major decisions impacting the Firm are reviewed and approved by the Executive Committee.

The Committee includes:

- Richard S. Fuld – Chairman & CEO
- Joseph M. Gregory – President
- Bradley H. Jack – Office of the Chairman
- Dave Goldfarb – Chief Administrative Officer
- Jeremy M. Isaacs – Chief Executive Officer, Europe & Asia
- Stephen M. Lessing – Senior Client Relationship Manager
- Herbert H. McDade III – Capital Markets - Global Head of Fixed Income
- Robert S. Shafir – Capital Markets – Global Head of Equities
- Roger Nagioff – Chief Operating Officer, Europe
- Ted Janulis – Head of Investment Management Division
- Jesse Bhattal – Chairman, Lehman Brothers Asia
- Skip McGee – Global Head of Investment Banking

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## Management Committee

- ◆ The Firm's **Management Committee** includes all the major business unit operating heads and is responsible for the operations of and coordination among the global business units, including establishing near-term strategic initiatives. The Management Committee provides leverage for the Executive Committee and includes members of the Executive Committee as well as the following:

- Joe Amato – Chief Recruiting and Development Officer
- Madelyn Antoncic – Chief Risk Officer
- Jon Beyman – Head of Operations and Technology
- Tracey Binkley – Global Head of Human Resources
- Jolyne Caruso – Head of Global Absolute Return Strategies
- Benoit D'Angelin – Head of European Investment Banking
- Mike Gelband - Global Head of Fixed Income Liquid Markets
- William Lighten – Head of Mortgage Capital
- Alan Marantz – Global Head of Private Investment Management
- Robert Matza – Head of Asset Management
- Chris O'Meara – Chief Financial Officer
- Jim Rosenthal – Global Head of Strategy
- Mark Shafir – Global Head of M&A
- John Wickham – Head of Global Client Services

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## Operating Exposures Committee

- ◆ The **Operating Exposures Committee** is chaired by the Firm's Chief Legal Officer, Thomas Russo, and addresses key risk and exposure areas impacting the Firm. Its mission is to:
  - Protect the franchise and ensure appropriate controls exist to identify and mitigate risks.
  - Examine all activities where the Firm has risk, including market risk, credit risk, operational risk, technology risk, documentation risk, and legal risk.
  - Identify and anticipate those areas and issues that may leave the Firm most vulnerable and to sponsor appropriate measures to deal with them.
- ◆ The current membership of the Operating Exposures Committee includes the Firm's Executive Committee and:
  - Tom Russo – Chair
  - Madelyn Antoncic – Risk Management
  - Mary Pat Archer – Fixed Income CAO
  - Jon Beyman – IT/Operations
  - Patricia Haas Cleveland – Legal
  - Bob Lieberberg – Equities CAO
  - Mark Malin – Operations
  - Chris O'Meara – CFO
  - Joe Polizzotto – General Counsel
  - Ted Price – Security
  - Beth Rudofker – Corporate Audit
  - Peter Sherrat – Legal (Europe)

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## Finance Committee

- ◆ The Firm's **Finance Committee** meets weekly to review the Firm's liquidity, funding and capital positions. The Committee develops, implements and enforces policies in each of the key areas, which includes recommendation for the allocation of balance sheet and liquidity (cash capital), and capital targets to the Firm's business units. Through the establishment and enforcement of these policies and limits, the Finance Committee ensures that the Firm is not exposed to undue risks.
- ◆ The Committee includes members from each of the Firm's business units, the CFO, Financial Controller, Capital Markets Controller, Treasurer and Co-heads of International Finance, as well as other employees across the global finance department including Treasury, Product Control and Financial Control.
- ◆ Every week the Finance Committee reviews:
  - The 90 day forward, and one year forward, liquidity position for each of the broker dealers and the Holding Company, and explanation for week over week changes.
  - The investment performance of the liquidity pool.
  - The cash capital position of all the businesses, explanation of changes and forecasted usage.
  - The position and pipeline for the Thrift, Bankhaus, SLFT, Brahms.
  - FX and Interest Rate risk positions.
  - Long term debt spreads and trends.
  - Investor Concentrations
- ◆ This is augmented by "Special Topic" presentations on relevant topics, as necessary.

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## Risk Committee

- ◆ The Firm's **Risk Committee** meets at least weekly to review all risk exposures, position concentrations and risk taking activities, including monitoring actual risk exposures to approved limits. The Committee includes members of the Executive Committee as well as the Global Head of Risk Management and the Chief Financial Officer.
- ◆ Overall risk management policy is established by the Executive Committee.
- ◆ The Firm's Global Risk Management Division is completely independent of the trading areas, reporting directly into the Chief Administrative Office. The group combines the credit, market, quantitative and operational risk functions to best facilitate the overall analysis of risk exposures. Staff are located in each of the regional trading centers globally to better maintain daily contact with the trading areas.

## Conflicts Task Force

- ◆ In October 2003, the Firm established a Conflicts Task Force (CTF) through which senior legal, compliance and internal audit personnel review specific product and business areas. CTF reviews are designed to consider all types of conflicts of interest and to assess the appropriate controls necessary to manage such conflicts. The CTF is a global committee, consisting of senior CAD staff. CTF's reviews also involve personnel from the affected business units, as well as administrative and technology personnel as appropriate. The CTF generally meets every 4-6 weeks.
- ◆ Importantly, the CTF was not created to do a one time review. Rather, it is designed to be a permanent, ongoing part of the Firm's conflict management process.

## New Products Committee

- ◆ The Firm's **New Products Committee** is chaired by the Firm's Chief Legal Officer. The Committee determines whether the Firm will commit to market a new product or enter into a new business. Particular areas of focus include all aspects of risk (legal, credit, tax, finance, operational, sales, documentation and market) and awareness of the product or business throughout the Firm. The budget for any new product, including capital required, must be approved as part of the budget for the business unit proposing the product.
- ◆ The New Products Committee is composed of senior Firm employees representing support areas (Operations, Systems, Risk Management, Accounting, Treasury, Tax, Legal, Compliance, Credit, Audit) and businesses such as Investment Banking, Capital Markets & Investment Management.
- ◆ Products and/or Businesses that are reviewed by the Committee have the following characteristics:
  - Products that have not been offered to the firm's clients and counter parties previously, or over the last two years, in their current form or in a substantially similar form; or
  - Variations on existing products that significantly alter the product's risk profile; or
  - The trading or offering of transactions by existing businesses in a substantially different manner or through different legal entities; or
  - Businesses that have not been conducted by the firm previously, or over the last two years; or significant changes in the operation or risk profile of an existing business; or
  - Marketing an existing product into a new country
- ◆ Review/Approval
  - If approved, the Committee helps to determine which control/support areas the business group needs further assistance from to complete the new product/business integration. Off-line working groups are set up, if appropriate, to address issues specific to the product. After the off-line work is complete the product may need to come back to Committee for final approval.

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## Transaction Approval Committees

- ◆ The Firm has established a rigorous approval process for all transactions.
- ◆ The transaction review process encompasses several approval levels, including those at the business unit, division, Firm and, if significant enough, the Executive Committee level.
- ◆ Each committee includes representatives from a number of front offices and support functions, such as Risk Management, Finance and Credit Research.
- ◆ Decisions on approving transactions not only take into account the creditworthiness of the transaction on a stand-alone basis, but also consider our aggregate obligor risk, portfolio concentrations, reputation risk and the impact that any particular transaction under consideration has on our overall risk appetite usage versus our risk appetite limit.
- ◆ The Firm's **Investment Banking Commitment Committee** reviews and approves all proposed debt and equity offering transactions, including those in which the Firm may participate. While the Commitment Committee must approve all such transactions, significant transactions are also be subject to review by the Executive Committee, subject to specified dollar amounts and/or at the Commitment Committee's recommendation.
- ◆ The Firm's **Investment Committee** was established to review and approve all investments or divestitures of principal investments.
- ◆ The **Bridge Loan Committee** reviews and approves those transactions involving the commitment of bridge financing by the Firm.
- ◆ The Firm's has two loan related committees (High Yield and High Grade) which also must review and approve any lending related transactions when the Firm will hold or take position (including unfunded lending facility commitments). These reviews precede any commitments also taken up by the Investment Banking Commitment and Bridge Loan Committees.
- ◆ The **Global Equity Risk Committee** reviews and approves large equity transactions such as block trades or trades involving capital commitment.

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## Independent Control Functions

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## Independent Control Functions

- ◆ The support and control functions of the Firm are vital to establishing and reinforcing corporate governance and protecting the franchise.
- ◆ They help safeguard the Firm's clients, shareholders, data, financial statements, reputation and future.
- ◆ They are completely independent from the businesses, organizationally and for compensation purposes
- ◆ Finance, Operations, Risk Management, Legal, Compliance, Audit, Technology and Human Resources are coordinated and integrated into the operating environment of the Firm
- ◆ These groups are highly qualified, have strong leadership, depth of experience and enjoy strong management/board support and status within the Firm

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## Sarbanes-Oxley Compliance

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### Sarbanes-Oxley Compliance – Public Disclosures

- ◆ The Firm's commitment to a robust control infrastructure, and its multi-tier review process to ensure the accuracy of its financial statements and other publicly disclosed information, are long-standing.
- ◆ Pursuant to the Sarbanes-Oxley Act, our CEO and CFO certify the accuracy of the Firm's quarterly and annual SEC reports and the effectiveness of the Firm's internal controls and disclosure controls and procedures.
- ◆ As part of the managements control and oversight, a formal due diligence process is conducted for reviewing annual and quarterly financial statements, as well as the Firm's controls, before the reports are filed with the SEC. This process consists of three elements:
  - A meeting to review the SEC report, and to review the Firm's internal controls and disclosure controls and procedures. The meeting is led by the CEO and is attended by senior management of the Firm, including the President and COO, the CAO, the CLO, the CFO, General Counsel and the heads of business units, Ernst & Young and the Firm's outside counsel. The meeting involves presentations by the departments involved in the preparation of the SEC report or the Firm's internal controls including Finance, Legal, Internal Audit and Executive Compensation. A presentation is also made by Ernst & Young, the Firm's independent auditors. Participants are asked to discuss any questions regarding the accuracy or completeness of the filings.
  - Supporting certifications (i.e., certifications as to the accuracy of the SEC report and the effectiveness of the Firm's disclosure controls and procedures) from senior business leaders and participants in the preparation of the SEC report.
  - Review at an Audit Committee meeting of the SEC report and the due diligence process.
- ◆ The Firm has established and published on its web site special mail and internet addresses and a toll-free telephone number for receiving complaints regarding accounting, internal accounting controls or auditing matters.
- ◆ The Firm has established and published on its web site special mail and internet addresses for the communication of concerns to the non-management directors.

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## Sarbanes Oxley Section 404(a) – Internal Controls Attestation

- ◆ **A company is required to file in its annual report an internal control report of management stating:**
  - Management's responsibilities for establishing and maintaining adequate internal controls and procedures for financial reporting for the company
  - Management's conclusions about the effectiveness of the company's internal controls and procedures for financial reporting as of the end of the company's most recent fiscal year
  - The company's registered public accountant has attested to, and reported on, management's evaluation of the company's internal controls and procedures for financial reporting
- ◆ **The Firm successfully completed the certification requirements for 2004 and our external auditors issued and unqualified opinion**
  - Got started early in 2003 by developing our approach, obtaining senior management and Board of Directors commitment, establishing project management structure and dedicating resources throughout all areas of the Firm to focus on the requirements
  - Completed a "dress rehearsal" management certification for year-end 2003
- ◆ **Developed and implemented a consistent framework throughout the Firm**
  - Defined "universe areas" (over 400) of the Firm representing material financial statements accounts and disclosures
  - Developed framework to be used for evaluating all controls within the Firm
  - Included a broader scope than financial reporting areas / controls
  - Established a control "model" for each universe area and defined "best practice" control objectives

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## Sarbanes Oxley Section 404(a) – Internal Controls Attestation

- ◆ Developed and implemented a consistent framework throughout the Firm
  - Identified existing controls in each universe area that address control model/objectives
  - Identified broad range of controls for each area (over 8,000)
  - Determined which were relevant to financial reporting (over 4,500)
  - Ensure business or functional areas maintains appropriate level of documentation of controls
  - Testing of controls primarily by Internal Audit
  - Developed a system to manage information (ICESys)
  - Worked with external auditor continuously to understand requirements, agree approach and coordinate testing efforts
- ◆ The Firm has completed the requirements for management certification
  - Walkthroughs of control processes – walkthroughs are designed to affirm auditor and management's understanding of how controls are designed and implemented
  - Documentation/narratives of process flows – a required outcome of the walkthroughs is documentation describing the relevant controls processes within the area
  - Control templates – control descriptions and associated documentation is captured in a template that provides the basis for management's assertion that controls are sufficient (i.e. best practice)
  - Testing – the PCAOB (public accounting oversight board) established guidelines for testing ensure that all relevant and primary financial reporting controls are sufficiently tested to support management's assertion that controls are operable

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## Sarbanes Oxley Section 404(a) – Internal Controls Attestation

- ◆ The Firm has completed the requirements for management certification
  - Testing
    - Both Management/Internal Audit and external auditors are required to test controls
    - Maximum reliance on Internal Audit by external auditors test work through qualified staff, close coordination and external audit review of internal audit approach and working paper documentation that meets standard audit guidelines
  - Management Reviews – Full results of documentation and test processes are discussed with all levels of management within the Firm
  - Audit Committee updates – While the Audit Committee is apprised of the status of the 404(a) review throughout the year, detailed updates are provided in the January and February meetings, including the external auditor's opinion on management's compliance process and the results of their independent testing
  - Issue Corporate Audit Reports – 404(a) can be thought of as literally hundreds of audit projects that are focused on financial reporting controls; reports are issued in similar fashion to non-Sarbanes audit activity
  - Management Certification – management is asked to certify results each year, with both an electronic sub-certification and a paper-based certification at the highest levels of the Firm. Over 600 individuals certified in 2004.
  - Management's Attestation in Annual Report

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A graphic for the Corporate Advisory Division (CAD) featuring a stylized globe with a grid pattern. The globe is set against a light beige background. To the left of the globe, the text "Corporate Advisory Division (CAD)" is written in a serif font. The entire graphic is framed by a dark green border on the left and top.

Corporate Advisory Division  
(CAD)

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## CAD Overview

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## CAD Management

- ◆ Vice Chairman and Chief Legal Officer has overall responsibility for CAD
- ◆ General Counsel of the Firm is the Chief Operating Office of CAD, responsible for its day-to-day operations
- ◆ General Counsel reports to the Chief Legal Officer, as well as to the Chief Administrative Officer

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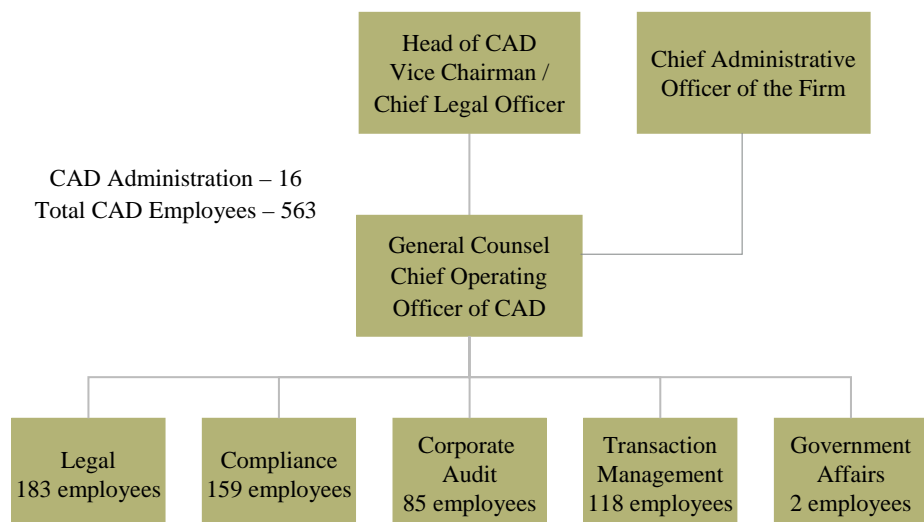
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## Mandate

- ◆ Identifies and mitigates unwanted risk of all kinds, not merely legal risk
- ◆ Works closely with the business and other corporate divisions to insure a strong Risk Control Infrastructure globally
- ◆ Active participation in monitoring new businesses and products and expansion into new markets and countries

## Organizational Chart



## Legal and Government Affairs Departments

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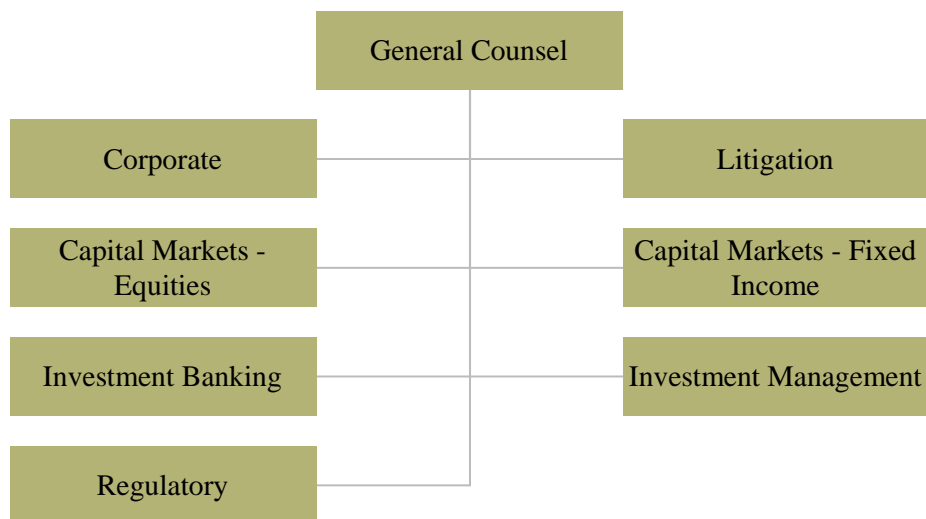
### Legal Department

- ◆ Corporate Law Group, including Corporate Secretary's Office
- ◆ Business Advisory Law Groups – provides legal services, advice and support on a global basis for the Equities, Fixed Income, Investment Banking and Investment Management Divisions
- ◆ Litigation, Employment, Insurance and Intellectual Property Group
- ◆ Regulatory Law Group

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## Legal Department Structure



## Legal Exposures

- ◆ Lehman is largely absent from or has a diminimus exposure to newer scandals
- ◆ Several reasons for this
  - Strong culture of compliance and risk aversion
  - Stable management and streamlined decision-making process
  - Great experience on the legal side
  - Business mix – principally institutional focus; no large retail

## Corporate Law

- ◆ Provide legal services with respect to a broad range of contract, corporate and securities laws, including the obligations of Lehman Brothers Holdings, Inc. and Lehman Brothers, Inc.
- ◆ Corporate counsel for all U.S. regulatory reporting obligations, Firm investments and compensation programs
- ◆ Corporate Secretary (corporate governance and formation of subsidiaries)
- ◆ Contracts for products and services (technology, market data, telecommunications and consulting)
- ◆ Corporate real estate and facilities

## Litigation

- ◆ Manages the Firm's claims or exposures in all contested proceedings globally
- ◆ Selects counsel to represent the Firm or its interests in pending matters, negotiations and concluding settlements
- ◆ Responsible for all collections, customer complaints, immigration and employment law issues, insurance and intellectual property

## Legal Capital Markets - Equities & Fixed Income

- ◆ Provides Legal Services regarding
  - Trading, sales and marketing of equity cash and derivative products
  - Origination of equity and equity derivative products
  - Financing of equities and provision of prime brokerage services
  - Provision of prime brokerage services
  - Mortgage origination
  - Mortgage and asset-backed securitizations
  - Client connectivity to the equity markets

## Legal Investment Banking

- ◆ Provides legal, risk management and transaction execution advice to the Investment Banking Division, including Mergers and Acquisitions and Equity and Debt Capital Markets
- ◆ Participates in the Commitment Committee, which reviews and approves debt and equity offering transactions, in which the Firm is considering participation
- ◆ Leads the Conflicts Task Force, which proactively identifies, assesses and reviews existing and potential conflicts among the Firm's business lines as well as procedures for disclosing, minimizing or eliminating these conflicts

## Legal Investment Management Division

- ◆ Provides the Investment Management Division (Private Investment Management, Asset Management and Private Equity) with legal advice and services to facilitate current business and assists with the development of new business initiatives

## Legal Regulatory Law

- ◆ Represents the Firm and employees in connection with regulatory requests, inquiries, investigations and proceedings
- ◆ Covers many different regulators, including the SEC, State Securities Commissions, the Department of Justice, the IRS, the NYSE, the NASD and all other regulators
- ◆ Also handles internal investigations and provides advisory services to regulatory issues such as those that arise during the course of routine audits

## Government Affairs

- ◆ Works to preserve and promote the Firm's business activities and opportunities by reviewing decisions made by federal government officials on issues of direct interest to the firm

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## Compliance and Regulation

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## Compliance and Regulation

- ◆ Advise Firm's business units to ensure adherence to Firm's policies, laws, rules and regulations
- ◆ Compliance teams are assigned to each business unit
- ◆ Compliance teams also cover firm-wide matters

## Compliance Organizational Chart





## Compliance – Primary Functions

- ◆ Deputy Director of Global Compliance
  - Capital Markets Compliance
  - Financial Crimes Prevention and Intelligence Unit
  - Office of the Chief Counsel for Global Compliance
- ◆ Investment Management Division Compliance
- ◆ Central Compliance
- ◆ Control Room
- ◆ Research
- ◆ Regulatory Law Group

## Capital Markets Compliance

- ◆ Equities
- ◆ Fixed Income
- ◆ Investment Banking and Syndicate
- ◆ Mortgages
- ◆ Operations

## Financial Crimes Prevention and Intelligence Unit

- ◆ Oversee Money Laundering Prevention Program
  - Customer Identification Program
  - Suspicious activity detection and reporting program
  - FCPA compliance
  - Employee training programs
- ◆ Enhanced Due Diligence

## Office of the Chief Counsel

- ◆ Review and respond to regulatory initiatives
- ◆ Technology compliance
- ◆ Strategic regulatory projects
- ◆ Policies and procedures

## Investment Management Division Compliance

- ◆ Private Investment Management
- ◆ Asset Management
- ◆ Private Equity
- ◆ Risk Arbitrage

## Central Compliance

- ◆ Training and Continuing Education
- ◆ Communications Compliance (including Marketing Materials)
- ◆ Regulatory Liaison
- ◆ Registration
- ◆ Examinations and Surveillance (including Electronic Communications Surveillance)

## Control Room

- ◆ Firm-Wide Coordinating Office – Control Room
    - Enforce Firm’s Chinese Walls and log in any crossings
    - Maintain Firm’s Watch and Restricted Lists
    - Surveillance of proprietary trading in Watch and Restricted List securities
    - Review research for companies on Watch Lists
    - Chaperone communications between Investment Banking and Research
    - Act as gatekeeper for analysts’ communications with investors
    - Review Investment Banking pitch books
    - Monitor employee accounts, investments and affiliations
    - Approve employee political contributions
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## Research

- ◆ Advise Equity Research Analysts, Research Management, Supervisory Analysts and the Control Room regarding applicable law, regulations and Firm Policy, which incorporates the Equity Research Settlement
- ◆ Render advice to insure the independence and integrity of research

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## Transaction Management

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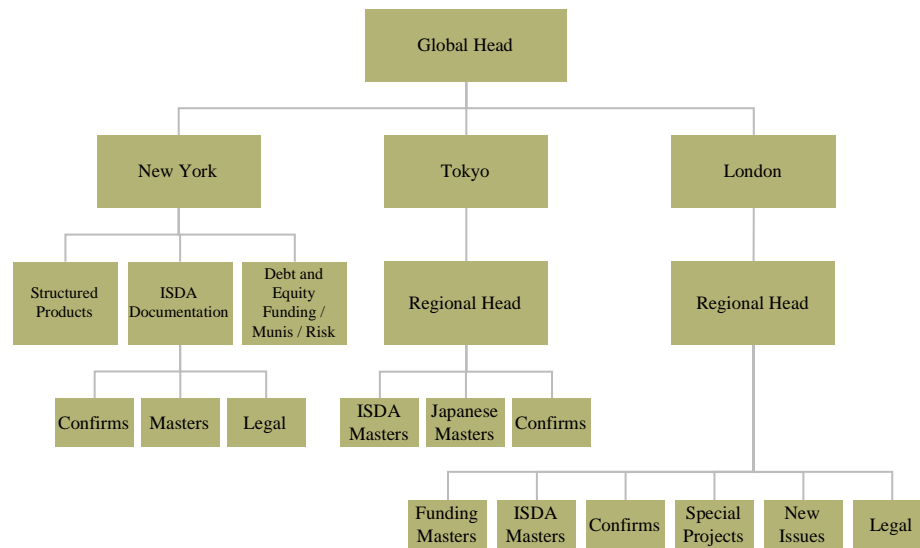
### Overview

- ◆ The Transaction Management Group (TMG) is primarily responsible for drafting and negotiating the Firm's OTC derivatives and funding documentation
- ◆ As part of this responsibility, TMG manages and mitigates transaction and counterparty-specific legal and documentation risk through the use of industry-standard master agreements and transaction-level documentation governing the applicable OTC transactions
- ◆ TMG maintains staff in New York, London and Tokyo that support relevant businesses in each respective region

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## Transaction Management Global Organization Chart



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## OTC Derivatives and Financing Businesses Covered by TMG

- ◆ Interest Rate Products
- ◆ High Grade and High Yield Credit
- ◆ Equity Volatility
- ◆ FX
- ◆ Fixed Income Financing
- ◆ Equity Financing
- ◆ Municipal Financial Products
- ◆ Emerging Markets

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## Primary Functions

- ◆ Master Agreements covering the Firm's Fixed Income and Equity OTC Derivatives Business and Repo and Securities Lending Businesses
- ◆ Confirmations for non-vanilla transactions, transactions requiring additional credit terms, as well as confirmations for certain lower volume businesses (Asia, U.S. Equities)
- ◆ Structured Transactions – Drafting documentation for and closing fixed income structured transactions and other bespoke agreements. Also responsible for European Debt Capital Markets New Issuance documentation

## Relationship – Level Documentation

- ◆ Specific Documentation Includes
  - ISDA Master Agreements and Credit Support Annexes and other credit support documentation
  - BMA / ISMA Master Agreements for OTC Repo Transactions, and related triparty custody agreements
  - BMA / SIA / ISLA Master Agreements for Securities Lending Transactions
  - Local Market Master Agreements (e.g., Rahmenvertrag, Japanese Market Funding agreements, etc.)
- ◆ TMG, in conjunction with the Legal Department, is also responsible for legal due diligence for OTC transactions in new jurisdictions
- ◆ Counterparty Authority Documentation Review and Approval
- ◆ Documentation Policy Compliance

## Confirmations

- ◆ Structured Transaction Confirmations for
  - Interest Rate Products
  - Credit Derivatives for all businesses
  - Equity Volatility and Equity Financing
- ◆ Long-Form Confirmations and transactions containing additional credit terms
- ◆ Lower Volume Businesses
  - Asia
  - U.S. Equities

## Fixed Income Structured Transactions and Bespoke Agreements

- ◆ Structured Credit and Interest Rate Products in the U.S. and Europe
  - Examples include: Funded and unfunded synthetic CDOs, other structured credit products referencing complex securities, structured notes, etc.
- ◆ U.S. Municipal Financial Products
- ◆ Europe Capital Markets New Issues – responsible for debt capital markets products including stand alone bond issues, subordinated debt products, Euro Medium Term Notes, etc. where Lehman Brothers acts as arranger or dealer, as well as equity linked notes and warrants



## Corporate Audit Overview

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### Discussion Topics

- ◆ Mission & Goals
- ◆ Reporting Lines & Coverage
- ◆ Audit Committee
- ◆ Organization & Staffing
- ◆ Approach, Planning and Reviews
- ◆ Risk Assessment
- ◆ Findings and Follow-up
- ◆ Interaction with External Auditors
- ◆ Significant Control Activities and Projects

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## Mission & Goals

- ◆ **The mission of the Corporate Audit Department is to independently confirm and ensure a strong internal control environment**
  - That is commensurate with industry best practices
  - That is supportive of the evolving regulatory framework
  - By identifying necessary control improvements and efficiency opportunities
  - By working with management to effect change
- ◆ **Corporate Audit developed seven key objectives in order to achieve the mission:**
  - Conduct comprehensive assessment and audit reviews of high risk areas of the Firm
  - Ensure Firm compliance with Sarbanes-Oxley 404(a)
  - Complete audit coverage of other mandatory areas
  - Participate in the evaluation and implementation of key new initiatives
  - Drive global consistency in audit approach
  - Ensure strong relationships and visibility with business managers throughout the Firm
  - Staff and develop the global department to be commensurate with the mission

## Reporting Lines & Coverage

- ◆ The Firm's General Auditor and Corporate Audit Department have an independent reporting line through the Audit Committee of the Board of Directors and internally to the General Counsel. The functions and activities of the Department are determined strictly by the General Auditor and reviewed / approved by the Audit Committee
- ◆ Corporate Audit provides senior management and the Audit Committee with an independent assessment of Lehman Brothers' internal control environment. This is accomplished by performing audit reviews on a cyclical and risk basis
- ◆ Coverage includes all global businesses, products, and operations including Capital Markets (Fixed Income, Equities), Investment Management Division, Mortgage Capital Division, Investment Banking, Operations, Technology, Risk Management, Finance, Other Corporate Functions

## Audit Committee

- ◆ Charter details specific responsibilities including oversight of internal audit function, management of external audit function, and specific financial reporting and review responsibilities
- ◆ Audit Committee Chairman and General Auditor interact frequently
- ◆ Formally meets 7 times annually
- ◆ Corporate Audit provides semi-annual updates
- ◆ Committee approves audit plan and any subsequent adjustments to the plan
- ◆ Internal control matters are discussed that could have an impact on the financial statements and would thus be reportable conditions under standards established by the AICPA

## Organization & Staffing

- ◆ Audit is currently staffed globally with a team of 85 professionals
  - 68% in U.S., 22% in Europe and 10% in Asia
- ◆ Management Team – Over 15 years audit and industry experience on average
- ◆ Over 85% of staff have graduate degrees or advanced certifications
  - CPAs or Chartered Accountants
  - Series 7 registration
  - CISA certification

## Approach, Planning and Reviews

- ◆ The Corporate Audit approach is consistent with professional standards and guidelines and is designed with a set of principles, guidelines and tools that are complemented by professional judgment
- ◆ In planning and performing audits of the internal control environment, the following five factors are considered to provide an opinion on the effectiveness of internal controls
  - The environment – the overall business, market and regulatory environment
  - Risk assessment – an evaluation of product complexity, operating and processing risk
  - Control activities – the nature and clarity of current control processes
  - Information and communication – the extent of automation and technology controls
  - Monitoring – continuous assessment, reporting and follow-up on review findings
- ◆ This approach adheres to guidelines established for the industry by the ASB, the Treadway Commission (COSO), AICPA, etc. and addresses internal control mechanisms across all units and functions within the Firm with respect to
  - Financial Reporting
  - Operations
  - Compliance

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## Approach, Planning and Reviews (Cont'd.)

- ◆ In general, audits are governed by this methodology and the following standard approach
  - Planning and risk assessment (annual and continuous)
  - Scheduling and resource allocation
  - Detailed control evaluation
  - Testing and control validation
  - Reporting
  - Review and follow-up
- ◆ The audit plan is developed based on a Corporate Audit risk assessment model and then considers other factors including concerns of the regulators, discussions with business unit management and external audit
- ◆ The plan is continuously evaluated throughout the year
  - Draft developed in December
  - Audit Committee approval in January (adjustments are made, if required)
  - Execution starts February
  - Refined as business mix changes or events warrant – regular Audit Committee updates

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## Risk Assessment

- ◆ Risk Assessment Model
  - Annual risk assessment of all auditable universe areas
  - Assign risk ratings of high, medium or low
  - Document risk assessments
  - Risk assessments stored in the Audit System, ICESys, for future reference
- ◆ Identify and define risk categories
  - Market risk
  - Credit risk
  - Financial reporting risk
  - Technology risk
  - Operational risk
  - Legal / regulatory risk
  - Reputation risk
- ◆ For each product or process in the audit universe
  - Assess inherent risk
  - Assess internal control environment
  - Determine residual risk

## Findings and Follow-Up

- ◆ Audit Reporting
  - Reports are issued based on findings discovered during audit reviews
  - Findings are categorized based on their level of priority
  - Audit works with businesses to review findings and develop action plans
  - Action plans require specific deliverables and dates
  - Audit actively follows up with businesses to ensure that issues are resolved
  - Audit conducts regular meetings with senior business unit heads / CAO's to review findings and status of open action plans
  - Key findings are reported to the Audit Committee
- ◆ Findings Follow-up
  - Assignment and notification to owners
  - Track action plans and status vs. deliverable dates
  - Regular reporting and reviews with management

## Interaction With External Auditors

- ◆ Mutual Planning Cycles
- ◆ Cross reliance
  - Internal Audit – key focus on internal controls in support of operational processes: trade entry → P+L capture → financial control review → risk management → settlement and clearance
  - External Audit – key focus on internal controls in support of financial reporting processes: P+L capture → trial balance sheet → consolidation → financial and regulatory reporting → risk management
  - Sarbanes-Oxley review work – Our external auditor performs SAS65 review of all audit results in order to confirm reliance on Corporate Audit control testing for financial reporting controls
- ◆ Regular interaction, shared reports / workpapers
- ◆ Joint participation in Senior Management and Audit Committee meetings to discuss and certify financial reporting (Q's) and discuss potential control concerns

## Significant Control Activities and Projects

### **Specific Business-related Special Project Activities include, but are not limited to:**

- ◆ Fraud Risk Mitigation Framework
- ◆ Acquisition due diligence, and integration
  - Mortgage subsidiaries
  - Neuberger Berman
- ◆ SAS70 support activity
- ◆ Enhance or define policies and standards
- ◆ Creation of ILC Bank
- ◆ Establish new locations (e.g., India)
- ◆ NASD Breakpoint Refund Program
- ◆ Support for Firm's CSE initiative
- ◆ Support for numerous regulatory inspections including SESC and SEC



## Finance Division

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## Finance Overview

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## Finance Overview

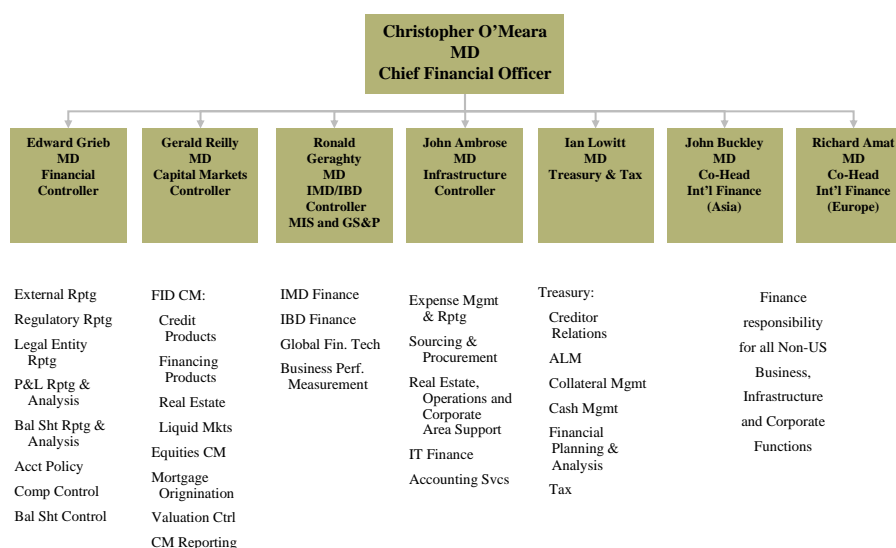
*Finance is an integral part of the Firm's overall management and decision making process. The Division is responsible for providing analysis of business profitability and return on capital, optimizing funding and the Firm's capital structure and ensuring a strong internal control environment in order to protect the integrity of the franchise. The Division is also responsible for developing and maintaining relationships with key external constituents including creditors, regulators, and rating agencies*

The Finance Division has established an organizational structure that allows it to fully support the Firm's business activities with appropriately skilled personnel in positions to address the financial analysis, reporting and control requirements of the Firm. The high level of communication among the CFO and his direct reports allows the Division to meet its objectives as set forth in its Mission Statement

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## Finance Division Organization – CFO Organization



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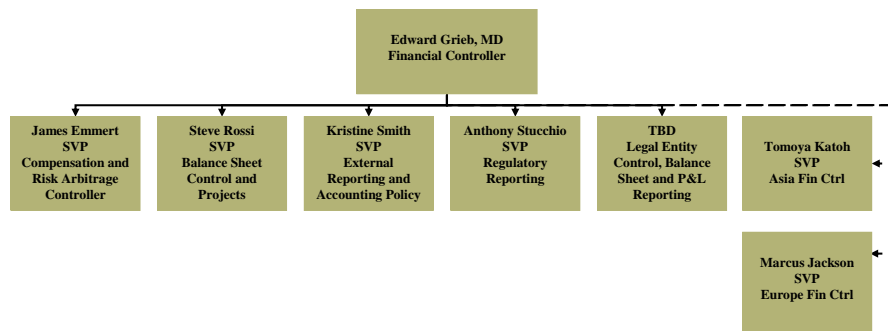


## Financial Control

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### Financial Control Organization



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## Financial Control Organization

- ◆ Compensation Controller – The Compensation Group is responsible for the ongoing maintenance of the Firm’s compensation modeling process, as well as the appropriateness of the Firm’s compensation related balances and disclosures in the Consolidated Financial Statements. This Group also monitors benefit and retirement plans as well as undertaking the preparation of the benefit plans’ financial statements
- ◆ Balance Sheet Control & Validation and Projects – This Group works with the Legal Entity Controllers and Product Control to ensure that existing financial control processes are both efficient and effective. This Group also directs the account and legal entity ownership and certification processes. Finally, this Group is responsible for assisting in the analysis and development of technology solutions within Financial Control, and works with Corporate Strategy in the analysis and due diligence around potential acquisitions

## Financial Control Organization (Cont’d.)

- ◆ External Reporting and Accounting Policy – This Group is responsible for the preparation and review of all periodic financial reports for the Holding Company (e.g. 10-K, 10-Q) . Working closely with the entire finance organization, External Reporting will ensure that the financial statements and disclosures completely and accurately report the Firm’s financial results and position. Accounting Policy is responsible for the review and understanding of all relevant accounting literature, interpreting this guidance and determining its impact on the Firm. Accounting Policy works closely Product Control, other support functions and business units on both a pre- and post-trade basis to ensure that the financial impact of transactions is appropriately recorded.
- ◆ Regulatory Reporting – This Group is responsible for the preparation and review of all regulatory submissions including:
  - LBI net capital and customer reserve formula; commodity exchange customer segregation
  - NBLLC and NBMI net capital and customer reserve formula
  - LOTC net capital
  - Federal Reserve and Department of Treasury reportsThe Group also serves as Legal Entity Controller for all of the domestic regulated entities and will along with the Risk Management Group, be responsible for the ongoing reporting under Consolidated Supervised Entity rules

## Financial Control Organization (Cont'd.)

- ◆ Legal Entity Control, Balance Sheet and P&L Reporting – Legal Entity  
Controllers ensure that the financial statements for each individual legal entity are appropriately supported and where necessary will prepare separate company financial statements. The Group is also responsible for the global consolidation of all legal entities. The Balance Sheet and P&L Reporting Groups are responsible for the daily distribution of estimated revenues and balance sheet, as well as supporting the month-end legal entity closing process
- ◆ International Financial Control Organizations – The European and Asian Financial Control organizations have matrix reporting lines into both the Financial Controller as well as regional Finance directors. These organizations are structured on a similar basis as the U.S. organization

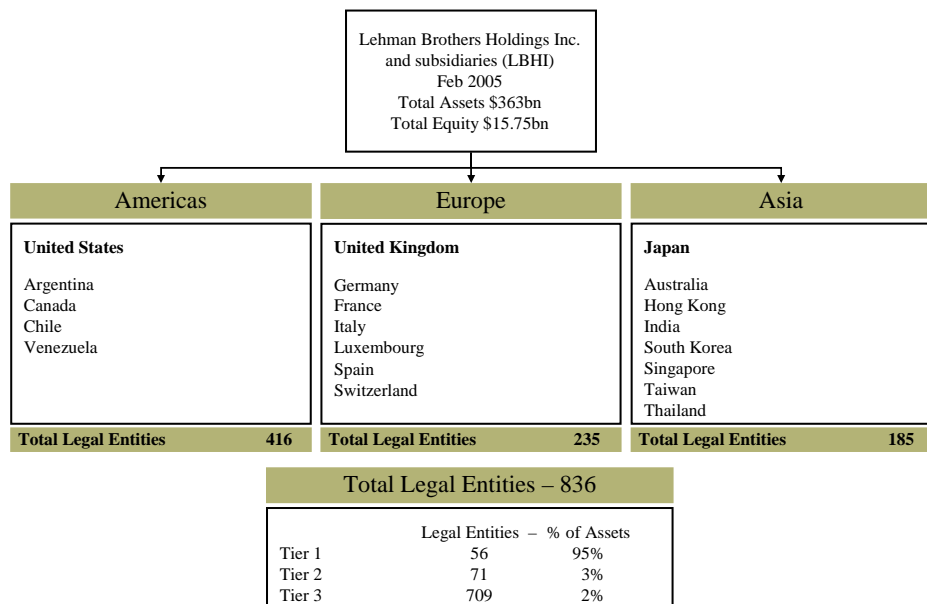
## Financial Reporting Oversight

- ◆ The Firm has a robust process to ensure the integrity of its financial statement and disclosure information which includes:
  - Daily P&L and position review processes
  - Monthly financial closings, including reconciliations to daily processes
  - Rigorous mark-to-market inventory valuation and independent verification process
  - Formal process to collect and process quarterly disclosure information within Finance
  - Internal due diligence meetings over SEC 10K/10Q reports, including review with Audit Committee
- ◆ Finance is completely independent, organizationally as well as for compensation purposes, from the business units
- ◆ The CFO and most senior members of the Controller's organization are CPA's with extensive Big 4 public accounting and industry experience

## Legal Entity Overview

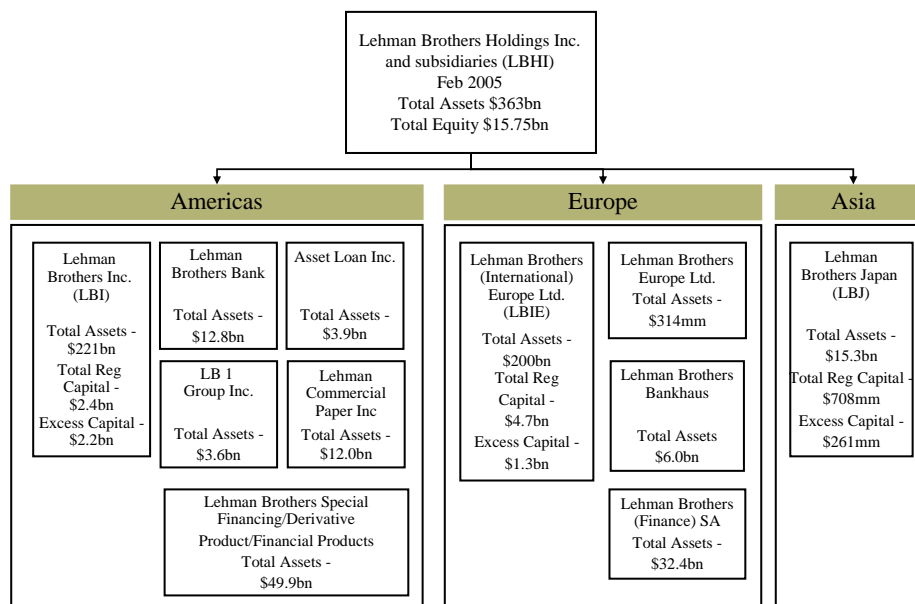
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## Legal Entity Overview



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## Legal Entity Overview



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## Legal Entity Overview – Americas

Legal Entity	Description	Primary Businesses/Products
Lehman Brothers Inc. (LBI)	<ul style="list-style-type: none"> <li>Primary US Broker Dealer transacting in liquid market products. Regulated by the SEC, NYSE, NASD, CFTC and regional exchanges</li> <li>Market maker for 1,953 NASDAQ stocks and owner of 20 NYSE seats</li> </ul>	<ul style="list-style-type: none"> <li>Fixed Income <ul style="list-style-type: none"> <li>Agency and MBS</li> <li>Corporate Bonds (High Grade/High Yield)</li> <li>Firm Financing</li> <li>Foreign Exchange</li> <li>Governments</li> <li>Municipal Bonds</li> </ul> </li> <li>Equities <ul style="list-style-type: none"> <li>Cash Execution Services</li> <li>Equity Financing</li> <li>Risk Arbitrage</li> </ul> </li> <li>Investment Banking: <ul style="list-style-type: none"> <li>M&amp;A</li> <li>Debt &amp; Equity Underwriting</li> </ul> </li> <li>Investment Management: <ul style="list-style-type: none"> <li>High Net Worth Retail</li> </ul> </li> </ul>
Lehman Brothers Bank (LBK)	<ul style="list-style-type: none"> <li>OTS regulated entity; Subsidiaries include ALS and BNC involved in mortgage loan origination and servicing</li> </ul>	<ul style="list-style-type: none"> <li>Mortgage Securitization and Financing</li> </ul>
Asset Loan Inc.	<ul style="list-style-type: none"> <li>Commercial mortgages and real estate investing</li> </ul>	<ul style="list-style-type: none"> <li>Real Estate Investments</li> <li>Commercial Mortgage Loans</li> </ul>

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## Legal Entity Overview – Americas

Legal Entity	Description	Primary Businesses/Products
Lehman Brothers Special Financing (LBSF)	◆ Fixed income derivative dealers. (LBDP and LBFP are AAA-rated entities requiring regular reporting to credit rating agencies)	◆ Interest Rate Derivatives ◆ Credit Derivatives ◆ Municipal Derivatives
Lehman Brothers Derivative Products (LBDP)		
Lehman Brothers Financial Products (LBFP)		
LB 1 Group	◆ Principal investment vehicle, including investments in private equity and risk arbitrage positions	◆ Risk Arbitrage ◆ Private Equity: – Venture Capital – Merchant Banking
Lehman Commercial Paper Inc (LCPI)	◆ Leveraged lending and syndicated loans	◆ High Grade & High Yield Loans ◆ Asset-Based Lending

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## Legal Entity Overview – Europe

Legal Entity	Description	Primary Businesses/Products
Lehman Brothers International Europe Ltd (LBIE)	◆ Primary European Broker Dealer regulated by the Financial Services Authority	◆ Government and Credit Products ◆ Equity Cash Products ◆ Secured Financings (Debt & Equity) ◆ CDO's ◆ Foreign Exchange
Lehman Brothers Europe Limited (LBEL)	◆ UK regulated Broker Dealer	◆ Investment Banking ◆ Investment Management
Lehman Brothers Bankhaus (LBB)	◆ German bank regulated by the Bundesbank	◆ Secured Financings
Lehman Brothers Finance SA (LBF)	◆ Swiss based equities derivative dealer	◆ Volatility Products

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## Legal Entity Overview – Asia

Legal Entity	Description	Primary Businesses/Products
Lehman Brothers Japan (LBJ)	◆ Primary Japanese Broker Dealer regulated by Financial Services Agency	◆ JGB's ◆ Equities Derivatives ◆ Investment Banking ◆ Secured Financing Products

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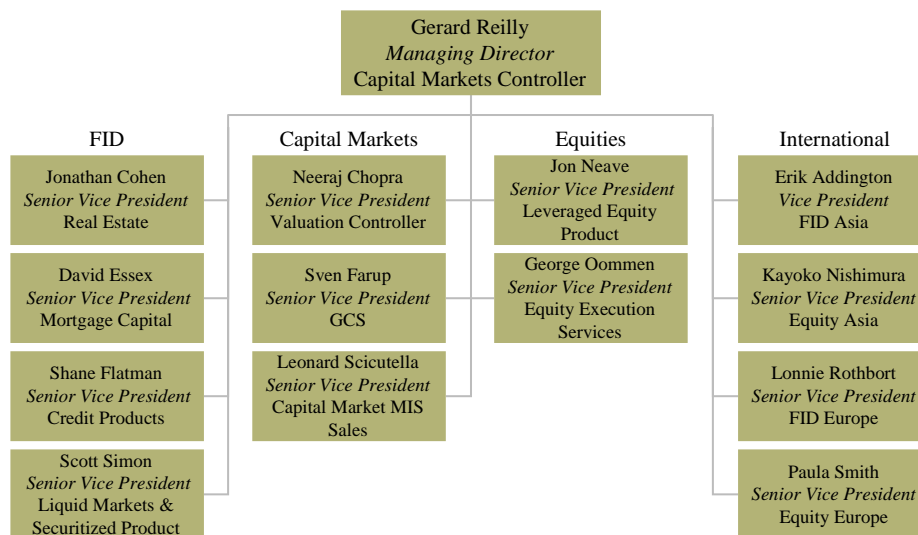
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## Product Control

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## Finance Division Capital Markets Controller



## Product Control – “Role of the Product Controller”

- ◆ Primary role is to protect the Firm
- ◆ Provide daily P&L analysis and reporting
- ◆ Independently verify inventory valuations
- ◆ Ensure appropriateness of valuation adjustments that adhere to globally consistent standards
- ◆ Ensure, in conjunction with risk management, that appropriate models are used to value derivative transactions
- ◆ Interface with internal and external accountants, auditors and regulators
- ◆ Provide value-added analyses that drives good business decision-making



## Product Control – Functional Areas

**Product Control – Functions can be grouped into three areas:**

- ◆ Daily P&L process and analysis
- ◆ Valuation and model control
- ◆ MIS analysis

## Product Control – Daily P&L Process and Analysis

### **Primary Functions**

- ◆ Production and analysis of the daily P/L
- ◆ Ensure adherence to approved inventory valuation and valuation adjustment policies
- ◆ Ensure appropriate use of existing models and the implementation of new models
- ◆ Month-end accounting close process
- ◆ Partnership with risk management to ensure accurate reporting of risk
- ◆ Implement process and technology efficiencies

## Product Control – Valuation and Model Control

### Primary Functions

- ◆ Develop price validation procedures
- ◆ Complete a formal monthly price testing review
- ◆ Review appropriateness of models in conjunction with risk management
- ◆ Formulate globally consistent valuation adjustment policies
- ◆ Primary interface with internal and external auditors with respect to inventory valuation substantiation
- ◆ Prepare valuation and accounting based financial disclosures
- ◆ Primary interface with our accounting policy group

## Product Control – MIS Analysis

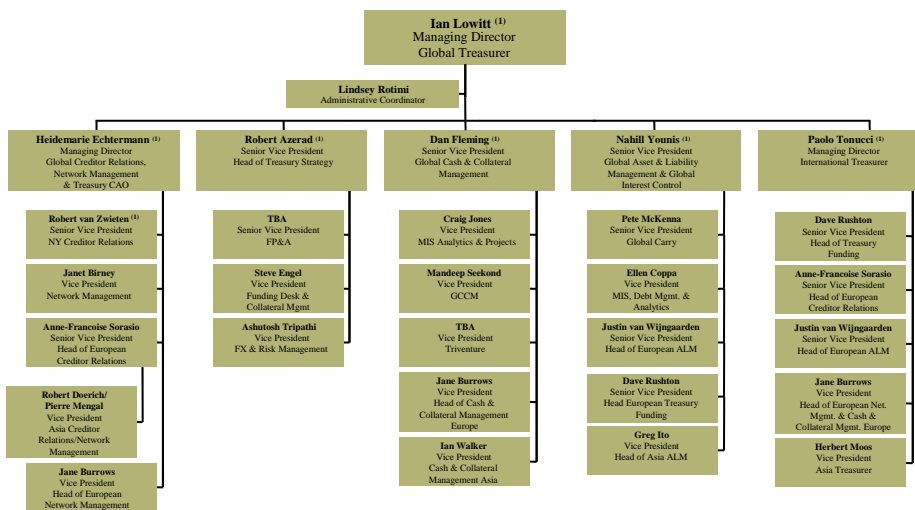
### Primary Functions

- ◆ Revenue forecasting and budgeting process
- ◆ Support strategic business initiatives from a finance perspective
- ◆ Analysis and optimization of capital usage
- ◆ Analyze business performance and develop specific performance metrics and targets
- ◆ Support other business and finance initiatives
  - Project management
  - Process efficiency
  - Technology enhancements

## Treasury

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## Global Treasury Organization



1. Treasury Management Committee.

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## Treasury Disciplines

### Global Treasury Is Comprised Of The Following Six Disciplines

- ◆ **Asset & Liability Management and Treasury Strategy**  
Responsible for developing liquidity management policy, embodied within the Funding Framework, but constantly evolving as the needs and nature of the business develops. Funding of the Firm's business activities, and managing the liquidity pool. Projecting and monitoring liquidity and ensuring constant compliance with the policies developed
- ◆ **Cash & Collateral Management (CCM)**  
Responsible for ensuring the Firm has appropriate controls and processes in place to efficiently manage the Firm's intraday liquidity requirements at an optimal cost. CCM provides secured and unsecured funding guidance, forecasts and manages intraday liquidity positions, facilitates payment processing, performs reconciliations and generates performance and benchmark reporting
- ◆ **Financial Planning and Analysis**  
Provides analyses to senior management to support decision making on financial policy
- ◆ **Creditor Relations**  
Establishes and maintains relationships with the Firm's credit providers and communicates to them the Firm's credit profile. The group aims to ensure access to reliable sources of secured and unsecured credit in all market environments by building solid relationships with our creditors which optimize credit and maximize interest efficiency
- ◆ **Global Interest**  
Works closely with the Product Controllers to manage and report interest expense incurred by the Firm and ensures that the expense of secured and unsecured funding activities is completely and accurately allocated to the business areas responsible in accordance with the Firm's Funding Framework
- ◆ **Network Management**  
Manage service relationships to provide quality and cost effective operational infrastructure to the Firm's business units while ensuring compliance with internal controls

## Objectives of Global Treasury

### Global Treasury's Primary Responsibility Is Keeping Lehman Brothers Safe From A Liquidity Standpoint

- ◆ Global Treasury is part of Finance, with a staff of 164 operates in New York, London, Tokyo and Frankfurt
- ◆ Treasury is responsible for funding Lehman Brothers and ensuring that adequate liquidity is maintained in all market conditions. Treasury developed and continues to dynamically refine the Funding Framework, our set of rules defining how we manage liquidity. Policy changes are reviewed by and approved by the Firm's Finance Committee
  - Treasury prepares the key tracking MIS for the Funding Framework and leads the discussion at the weekly Finance Committee
  - Treasury, in consultation with the CFO, CAO and the syndicate desk, makes the tactical decisions on long-term debt issuance (currency, size, maturity, etc.)
  - Treasury funds all business activity
  - Treasury invests the liquidity pool for the Firm
- ◆ Treasury looks to fund the Firm in the most efficient way consistent with our high liquidity standards
- ◆ Treasury recommends a dividend and stock buyback policy to the senior management of Lehman Brothers. This policy, after approval by senior management, is subsequently presented to the Finance Committee of the Board of Directors and, if approved by the Finance Committee, to the Board of Directors for approval

## Global Treasury Relationships

### Global Treasury is Responsible for Key Credit Sensitive Relationships

- ◆ Rating agencies
  - Treasury takes the lead in presenting the Firm to the rating agencies
  - Treasury keeps the agencies informed about matters which pertain to the Firm's creditworthiness
- ◆ Creditors, banks and debt holders
  - It takes the lead in negotiating secured and unsecured credit facilities with banks, including committed facilities
  - It provides funding solutions to the Firm's businesses while managing attendant financial risks and minimizing interest and operational costs. Treasury has taken a leading role in developing "win-win" partnerships between our creditor banks and Lehman Brothers
  - It manages all cash and security accounts and custody and clearance agreements with banks
  - It communicates the Firm's credit to creditors, including banks and debt holders

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Risk Management

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## Discussion Topics

- ◆ Overview of Risk Management
  - Introduction
  - Organization
  - Senior Management Risk Committees
- ◆ Risk Management Integrated Framework
  - Risk Appetite
  - Risk Equity
  - Limits
  - Stress testing and scenario analysis
- ◆ Departments within the Risk Management Division

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## Overview of Risk Management

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## Introduction

- ◆ Risk Management is one of our core competencies
- ◆ An essential part of Lehman's approach to risk management, is a strong internal control environment with multiple overlapping and reinforcing elements
  - It is multi-tiered and involves many areas of the Firm
- ◆ Risk Management is more than measuring and reporting risk
- ◆ Our approach applies analytical rigor overlaid with sound practical judgment
- ◆ One key feature which differentiates us from our peers is Market risk and Credit risk are integrated
  - Allows us to leverage people, analytics, systems, information flows
- ◆ Risk management works proactively with the risk-taking areas of the Firm before transactions occur
  - To ensure the least risky deal structure is executed
  - To ensure risk mitigants are in place, including getting appropriate levels of collateral

## Introduction (Cont'd.)

- ◆ Our focus is balancing risk versus return
  - We want to help ensure Lehman Brothers' risk appetite is deployed in the most efficient way
- ◆ Risk Management
  - Develops risk policies and procedures
  - Sets limits
  - Tracks actual risk usage against limits
- ◆ At the end of the day nothing is fool-proof. While there is no guarantee against loss, we can minimize the probability of loss
  - Our first line of defense is our culture
  - We set the tone, right from the top
  - We have developed a comprehensive internal control environment, to mitigate risk to the greatest extent possible

## Organization of the Risk Management Department

### Independence of the Risk Management Function

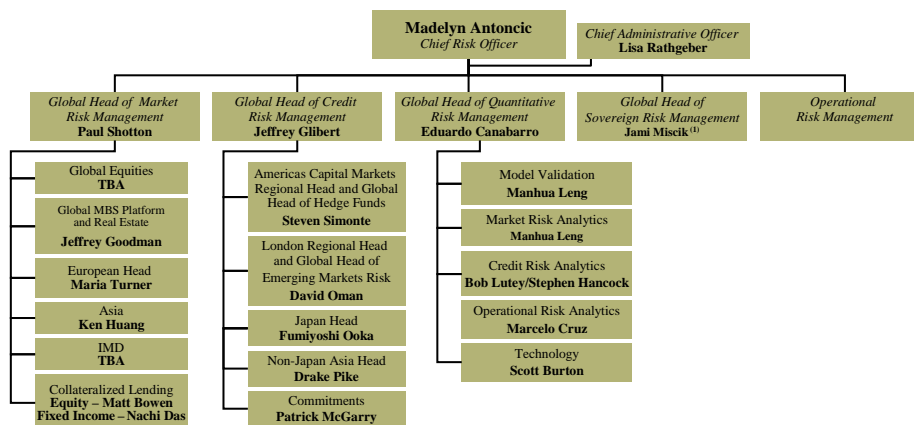
- ◆ The Global Risk Management Department is independent of the trading areas
- ◆ The Chief Risk Officer, Madelyn Antoncic, is a member of the Management Committee and reports directly to the Firm's Chief Administrative Officer (Dave Goldfarb), a member of the Executive Committee.
- ◆ Trading management reports to the Global Heads of Capital Markets -- Fixed Income (Bart McDade) and Equities (Rob Shafir) -- who report to the Chief Operating Officer and President (Joe Gregory). Outside the U.S., trading management, as well as risk management, is "matrixed" reporting both to global heads and regional heads

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## Organizational Structure

- ◆ Risk Management is a global, integrated function under the leadership of the Chief Risk Officer, Madelyn Antoncic. The Global Risk Management Division consists of 146<sup>(1)</sup> people, with an additional 70 local, plus 24 off-shore, individuals in Risk technology



1. Includes pending offers.

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## Global Risk Management Division

### Fun Facts

Within the Risk Division, excluding technology:

- ◆ ... we hold 101 graduate degrees (Ph.D.s, MBAs, MSs, MAs, etc...)
- ◆ ... have 24 different nationalities
- ◆ ... can communicate in 26 different languages (including Ancient Greek)
- ◆ ... have an average of 4.2 years at Lehman; longest tenure being 19 years
- ◆ ... one person has a Ph.D. in Aviation Ergonomics
- ◆ ... another has an MS in Naval Architecture and Marine Engineering
- ◆ ... another is an astrophysicist who has published 30 research papers on the origin, age and evolution of the Universe.

In other words, we are *educated*, *international*, and *communicative*. We have a *track record* in the Firm, and are equipped to withstand *bumpy rides*, *navigate* through rough paths and tackle *difficult*, *intangible problems*.

In sum, we are prepared to face the challenges of the CSE implementation.

## Risk Committees

- ◆ Dick Fuld chairs the weekly Capital Markets meeting
  - Composed of the Executive committee, the Chief Strategist, the Chief Economist, the Chief Risk Officer and the Chief Legal Officer
  - Serves to frame our risk opinions in the context of the global market environment
- ◆ The Risk Committee meets weekly to review exposures and position concentrations (both market and credit)
  - The Firm's Risk Committee consists of the Executive Committee, the Chief Risk Officer and the Chief Financial Officer
- ◆ In addition, there are other Risk Committees such as the:
  - Investments, Bridge Loan and Commitment Committees
  - New Products Committee
  - Operating Exposures Committee
  - Country Risk Committee


## Risk Management Integrated Framework

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## Risk Management Integrated Framework

The three core functions of risk management are:

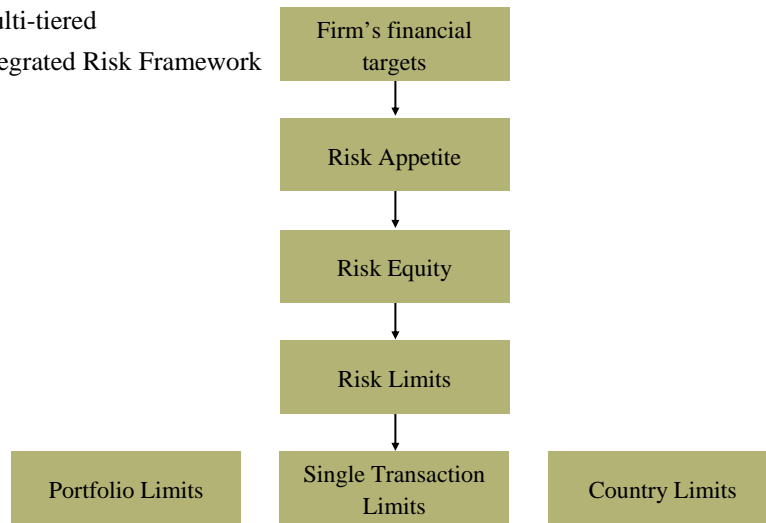
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|--|--|
| 1. Understanding and identifying all risks   | 1. Have metrics to measure the risk for all products   |
| 2. Ensuring that appropriate limits are in place for all transactions and products | 2. Define a “Risk Appetite”                            |
| 3. Protecting the Firm against “catastrophic” loss                                 | 3. Have the ability to measure and monitor “tail risk” |

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## Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework

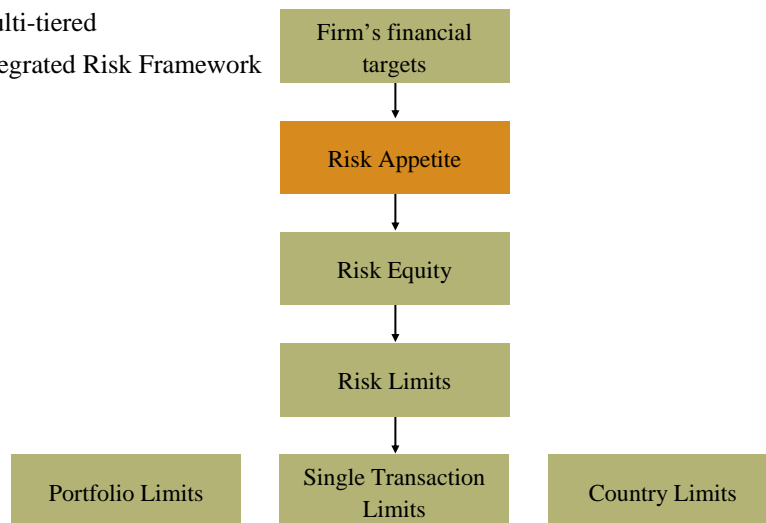


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## Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework



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## Risk Management Integrated Framework

### Risk Appetite

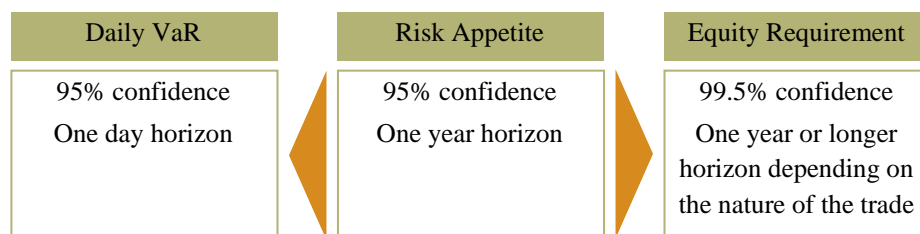
- ◆ We have established a framework for determining the most appropriate overall level of risk the Firm should be taking
- ◆ The framework begins with the amount of revenue the Firm would expect to make in a downturn and is designed to balance risk and return:
  - Our aim is to deploy enough risk in our businesses to generate strong cross-cycle returns
  - While at the same time limiting needless risk levels to ensure we meet our financial targets
- ◆ We have defined this level of risk as our risk appetite, which represents the quantity the Firm is “prepared to lose” in a year from market and counterparty credit risk, as well as from stress events
- ◆ In calculating our overall risk appetite, our goal is to maintain a minimally acceptable ROTE and compensation adequacy including maintaining sufficient headcount to protect the franchise for the long-term
- ◆ The overall risk limit is driven by Risk Appetite which is approved by the Executive Committee on an annual basis and is reviewed quarterly for requisite changes

## Risk Management Integrated Framework

### Risk Appetite – the Center of Our Approach to Risk

The risk appetite represents the quantity the Firm is “prepared to lose” in a year from market, event and counterparty credit risk. It is defined and measured at a 95 percent level of confidence

### Confidence Interval and Time Horizons



## Risk Management Integrated Framework

### Risk Appetite Limit

- ◆ We start with our financial targets
- ◆ We take into account a potential simultaneous slowdown in customer flow and banking activities (origination/advisory) which would negatively impact our financial targets since revenue shortfalls can also come from non-risk taking activities
- ◆ Then we subject ourselves to two constraints:
  - Maintaining a minimally acceptable annual ROTE
  - Ensuring compensation adequacy including maintaining sufficient headcount to protect the franchise for the long-term

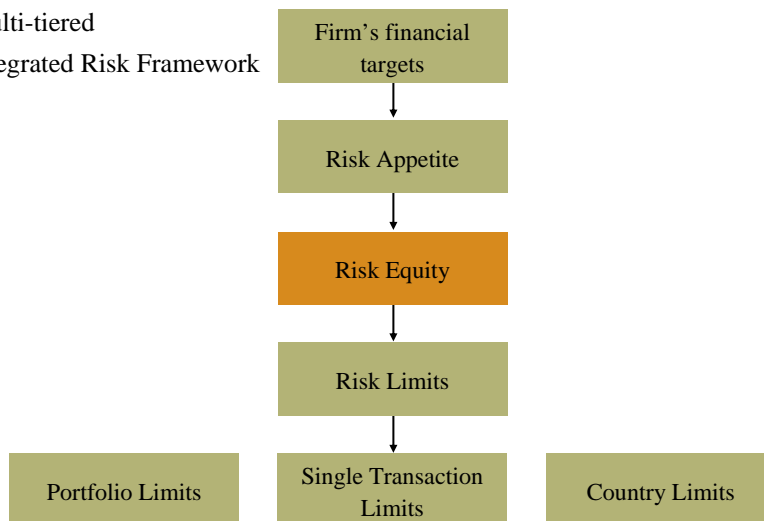
## Risk Management Integrated Framework

### Risk Appetite Usage

- ◆ Risk appetite usage is measured on a globally consolidated basis and reported on a daily basis against our risk appetite limit
- ◆ Risk appetite usage is composed of:
  - Market Risk
    - Measures the potential mark-to-market loss on all positions from adverse market moves
    - We use historical simulations which are “walk-backs” through time to determine what would have been the P&L impact on today's portfolio if we relived each day over the past four years. We apply an exponential 10% per month decay factor weighting scheme to the data
    - This approach allows us to avoid making assumptions about distributions, about diversification, about relative risk factor weightings
    - In order to determine the reasonableness of the market risk measures, we do backtesting, comparing the market risk generated for the portfolio using the historical simulation approach to its actual trading P&L
  - Event Risk
    - Measures stress and “gap risks” which go beyond potential market risk losses. We measure these risks using stress analyses which capture losses associated with
      - Downgrades for high grade and defaults for high yield loans and securities; defaults for sub-prime mortgage loans
      - Property value losses on real estate
      - Dividend risk for equity derivatives
      - Deal break risk for merger arbitrage positions
  - Counterparty Credit Risk
    - Measures the potential loss the Firm can suffer due to forward settlements, financing and derivative transactions with our customers

## Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework



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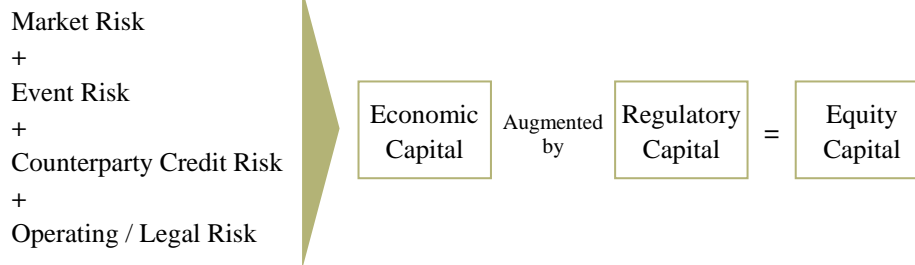
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## Risk Management Integrated Framework

### Risk Equity

The equity capital the Firm requires is the economic capital required to protect the Firm against market, event, counterparty credit and operating / legal risks augmented by regulatory capital – the capital required by businesses operating in regulated entities

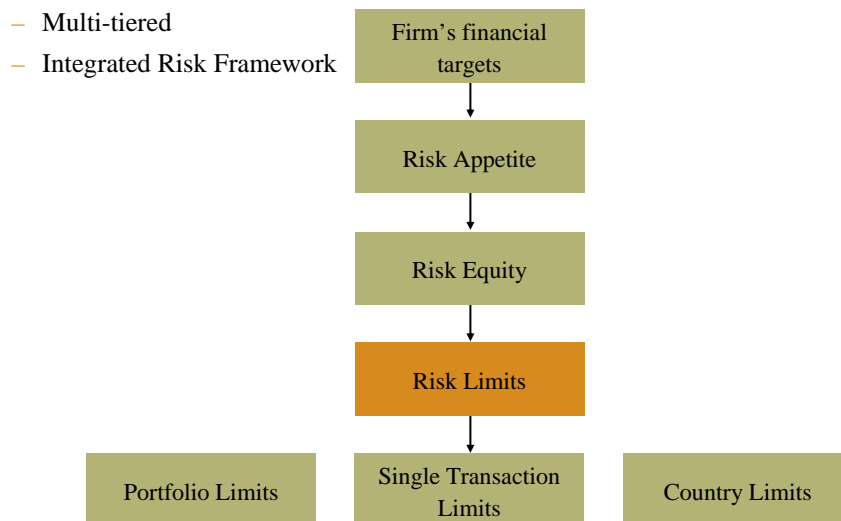
### Equity Capital: Economic Capital and Regulatory Capital



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## Risk Management Integrated Framework



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## Risk Management Integrated Framework

### Risk Limits

- ◆ Risk Appetite Limits
  - The overall limit is driven by Risk Appetite which is approved by the Executive Committee
  - Limits are set by Risk Management in conjunction with the business heads
  - Limits are cascaded down to the divisions and businesses
- ◆ VaR Limits
  - The overall VaR limit is a function of the Market Risk component of Risk Appetite
  - Limits set by Risk Management in conjunction with business heads
  - Limits are cascaded down to the divisions and businesses
- ◆ Counterparty Credit Limits are set for each counterparty group and legal entity based on our internal risk ratings
  - Settlement limits are set where, due to market convention, we have free delivery (FX)
  - Limits and usage take into account enforceable netting agreements as well as collateral
  - Limits are reviewed annually or biannually in accordance with our credit policy while usage against the limits is monitored daily

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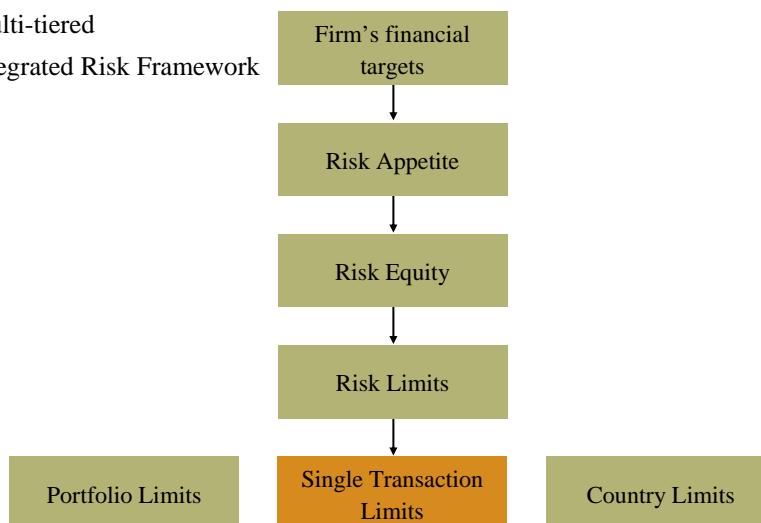
## Risk Management Integrated Framework

### Risk Limit Exception Process

- ◆ The overall philosophy of our Firm is that we have a zero tolerance level for ignoring limits and internal processes
- ◆ Disciplinary actions for limit breaches include compensation adjustments or terminations
- ◆ The Chief Risk Officer has the authority to approve exceptions
- ◆ If the overall risk appetite limit were to be breached the Chief Risk Officer would immediately notify the CAO and the Risk Committee
- ◆ If a limit is breached the risk manager discusses this with the traders involved, the Business Unit Manager/Desk Head, the Head of Market or Credit Risk Management and the Chief Risk Officer. The Chief Risk Officer, in consultation with the Division Head, will then either:
  - Allow the excess to remain for an agreed period of time in support of the specific trading strategy. This action may occur in cases where the excess was anticipated and discussed with Risk Management at an early stage, or where the excess is in support of a customer facilitation trade
  - Agree, in some circumstances, to revise the limit if, for example, there has been a change in the business which warrants such a change
  - Instruct the business to reduce the risk profile back within the limit

## Risk Management Integrated Framework

- Multi-tiered
- Integrated Risk Framework

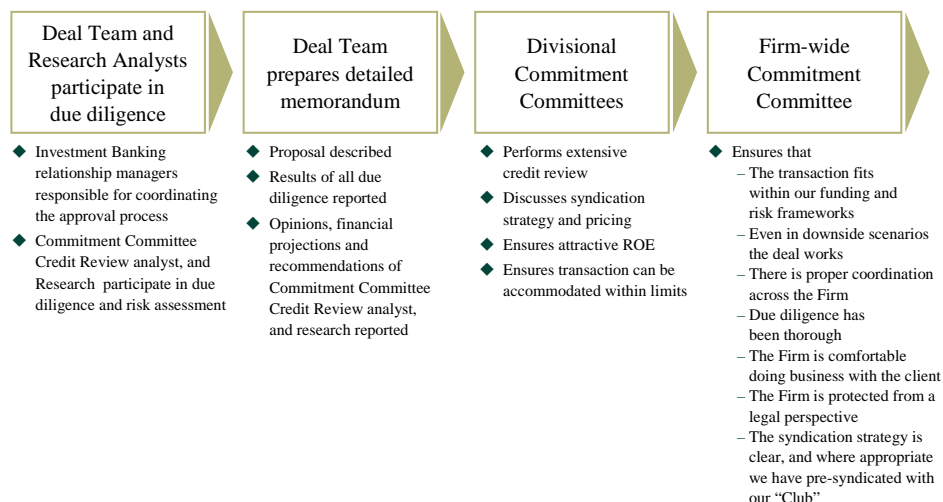




## Risk Management Integrated Framework

### Single Transaction Limits

Commitment Process – A series of “checks and balances”



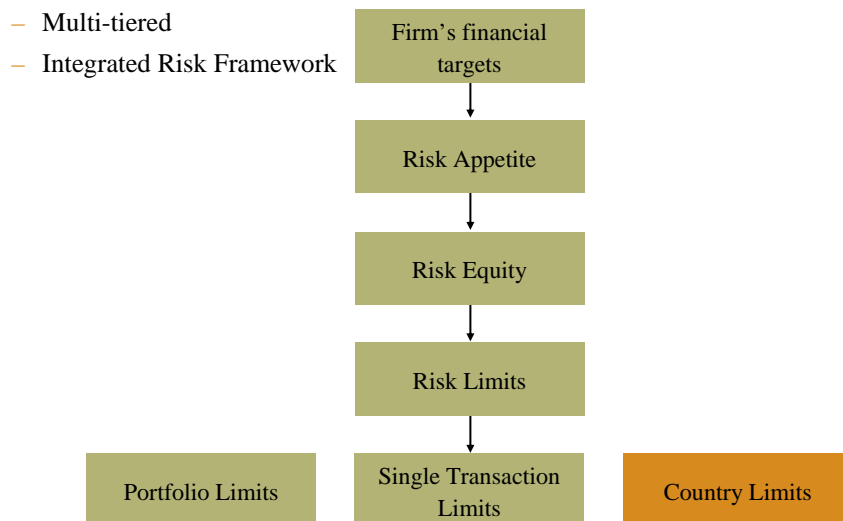
## Risk Management Integrated Framework

### Risk Limits

Single Transaction Limits

- The Firm operates under a comprehensive regime of limits for risk which relate to the aggregate portfolio of transactions
- The Single Transaction Limit framework is designed to limit our exposure to a single transaction even if it can be accommodated within these aggregate limits
- We want to limit the maximum loss we could incur to any one name in order to avoid negative publicity and incur decreased confidence in the Firm’s risk controls
- Executive Committee approval is required in rare circumstances where transactions could exceed these limits

## Risk Management Integrated Framework



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## Risk Management Integrated Framework

### Risk Limits

#### Country Limits

- ◆ Limits are set on a country basis for non-G10 countries
- ◆ All countries are tiered according to
  - Political and social stability
  - Macro fundamentals / creditworthiness
  - Size and liquidity of markets
- ◆ Limits are set on an estimated potential loss and value on default, with zero recovery, basis
- ◆ This process limits losses arising from a crisis in a country or a region
- ◆ Encourages prudent risk taking

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## Stress Testing and Scenario Analysis

### Risk Measurement Transcends Statistical Models

- ◆ Stress tests and scenario analyses are performed periodically to evaluate the potential P&L impact on a portfolio of abnormal market conditions, however unlikely the probability of occurrence
  - Analyses of movements in interest rates, stock prices, FX, volatility, etc., are run over a wide range of possible scenarios to determine the impact on the current portfolio of these extreme instantaneous shocks
  - These analyses do not allow for re-hedging or selling down a position either actively or through the automatic execution of existing stop losses
- ◆ Re-runs of historical episodes of extreme market moves are performed periodically to evaluate the impact on the current portfolio of a repeat of these stressed time periods
- ◆ Hypothetical scenarios are periodically used to evaluate the potential P&L impact on a portfolio due to shocks that have some probability of occurrence and are driven by macro fundamental shifts:
  - Dollar declines due to the current account deficit
  - Oil price increases leading to cost-push inflation
  - Yield curve steepening due to potential inflationary expectations
  - Credit spreads widening due to an increase in the overall level of the curve

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## Departments within the Risk Management Division

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## Market Risk Management

### Responsible for:

- ◆ Ensuring all market risks are identified, understood, measured, monitored and captured by an appropriate metric
- ◆ Active risk exposure consulting with businesses
- ◆ Active consulting role in risk capital allocation/ risk-adjusted performance assessment
- ◆ Assisting senior management in the dialogue with rating agencies and regulatory bodies
- ◆ Administering limits and management action triggers
- ◆ Monitoring and reporting of the market risk of trading exposures
- ◆ Aggregating and analyzing market risk (regionally and globally)
- ◆ Communicating large or unusual risk as appropriate
- ◆ Developing market risk measurement methodologies in conjunction with Quantitative Risk Management
  - VaR
  - VaR Back Testing
  - Scenario Analysis
  - Event Risk

## Credit Risk Management

### Responsible for:

- ◆ Counterparty credit analysis and due diligence
- ◆ Assigning and maintaining Internal Risk Ratings (ICR)
- ◆ Establishing Credit Limits for each counterparty by family and legal entity, as well as at the individual product levels
- ◆ Establishing Country Risk limits
- ◆ Preparing Credit Reviews on counterparties which assess the counterparty's strengths and weaknesses, supporting the ICR recommendation and recommended Credit Limits
- ◆ Monitoring Counterparty credit exposures on a Current (CCE) and Potential basis (MPE) including usage of Credit Limits
- ◆ Monitoring the Credit Portfolio on an ongoing basis which includes:
  - Country updates
  - Industry reviews
  - Ongoing review of counterparties
  - Monthly hedge fund performance reviews
  - Revising and updating risk ratings as appropriate
  - Understanding portfolio concentrations

## Quantitative Risk Management

### Responsible for:

- ◆ Developing, implementing and maintaining the risk methodologies and systems used to measure market, credit and operational risks, as well as validating the pricing and valuation models used by the business units of the Firm
- ◆ Subgroups:
  - Market Risk Analytics: develops the quantitative methodologies to measure market risk (VaR, Risk Appetite); maintains the time series database; provides analyses and consultation on market risk quantification
  - Credit Risk Analytics: develops the quantitative methodologies used to measure credit risk (CCE, MPE); generates exposure, country risk and ad hoc credit risk reports for senior management; provides analyses and consultation on credit risk quantification
  - Operational Risk Analytics: develops the quantitative methodologies used to measure operational risk; provides analyses and consultation on operational risk quantification
  - Model Validation: develops and implements the validation standards for the pricing models used in Firm; collects and archives documentation on the pricing models; reviews and approves the pricing models; participates in Model Review Committees (Fixed Income and Equities) with business units, Quantitative Research, Product Control and Technology
  - Risk Technology: implements the risk models utilized by GRMD; works with all risk groups in the development and implementation of the risk frameworks

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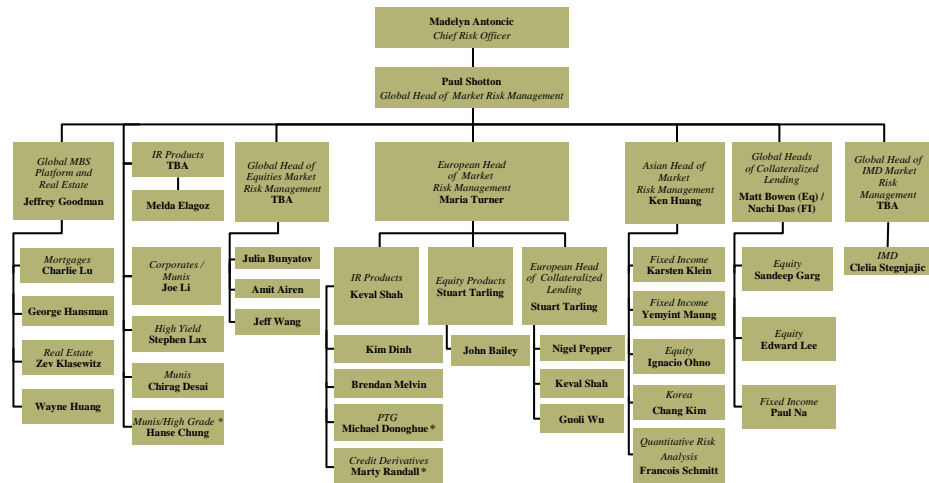
139

## Appendix

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## Market Risk Management Organization

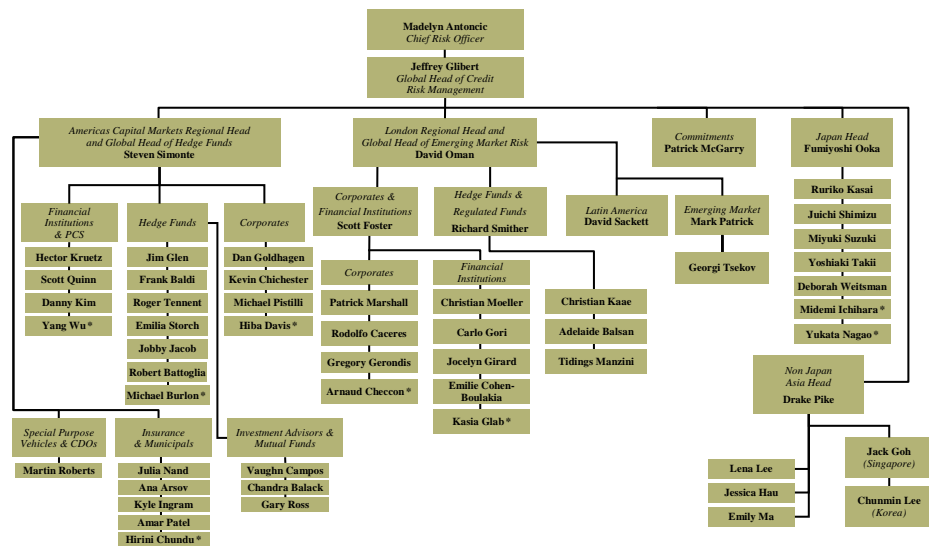


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## Credit Risk Management Organization

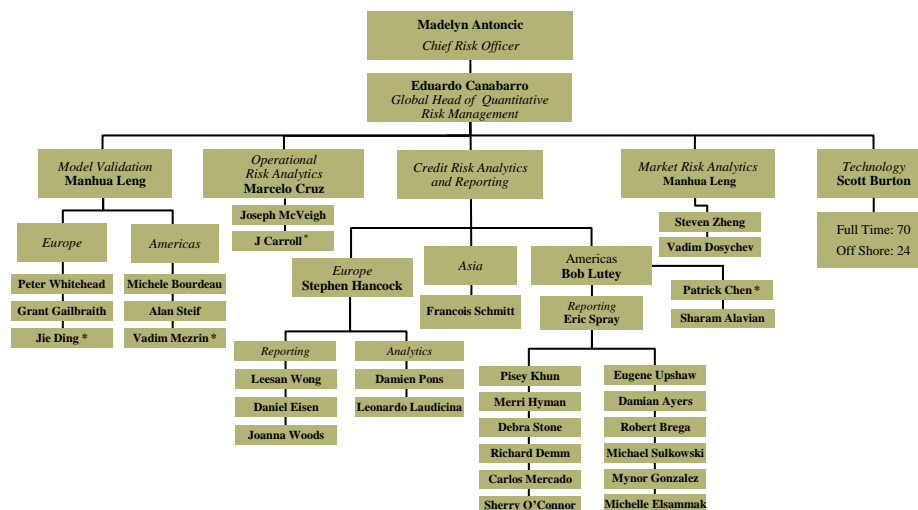


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## Quantitative Risk Management Organization



\* Pending.

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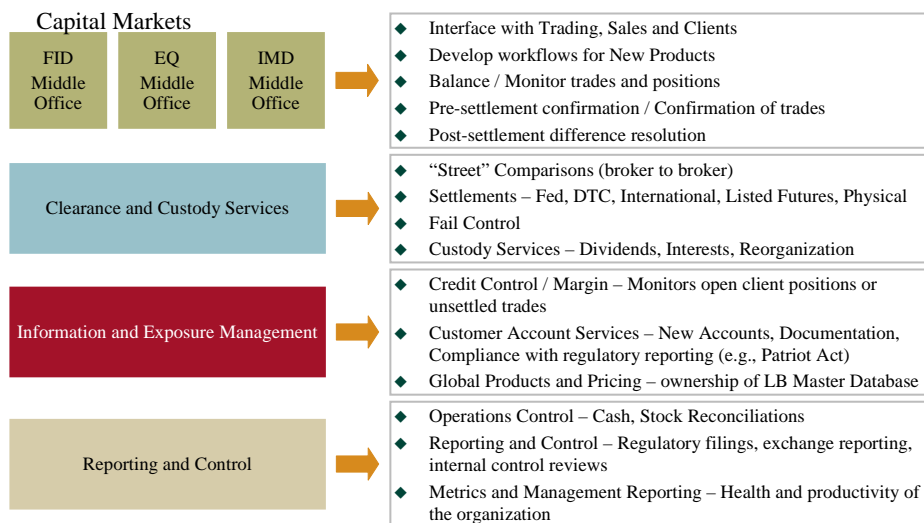
Operations

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## Operations

- ◆ 1,494 person global organization as of 3/31/2005
  - 899 in the U.S.
  - 396 in Europe
  - 199 in Asia
- ◆ Global Head of Operations based in New York
- ◆ Overlapping management matrix with global and regional responsibilities
  - Global Heads for Fixed Income, Equity, IMD, Clearance and Settlement, Control and Information and Exposure Management
  - Regional Heads of Operations based in London and Tokyo

## Operations Structure





## Operations Organization



## Primary Functional Responsibilities

- ◆ Pre-trade processing
- ◆ Trade control / Confirmation
- ◆ Clearance and settlement
- ◆ Position and balance management
- ◆ Post-settlement processing
- ◆ Infrastructure data management
- ◆ Control & Metrics



## Information Technology

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## Overview

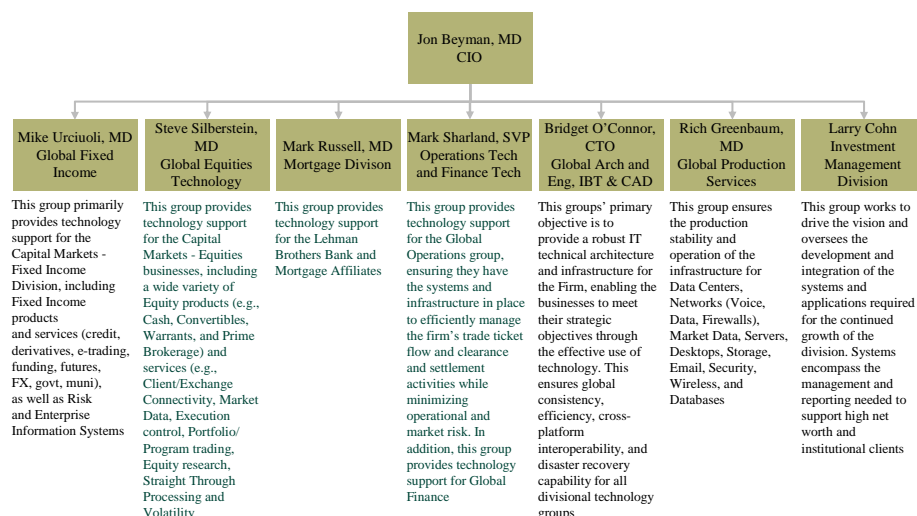
## Overview

- ◆ Mission statement of Lehman Information Technology Division
  - “Implement solutions that help drive the productivity of the Firm to generate superior returns”
- ◆ IT at Lehman is provided globally via a centralized organization
  - 2,150 employees, 650 “other FTE’s”, (domestic consultants, offshore service providers)
  - 2005 Operating budget of \$1 billion
- ◆ Development groups are aligned with business, in a matrix structure, with divisional and regional CIO’s being accountable to their business unit (or region), and to the Global CIO
- ◆ Infrastructure is consolidated into 2 groups reporting to the CIO
  - Global Architecture and Engineering
  - Global Production Services

## Our Technology Workforce Is Supplemented through the Use of Offshore Systems Consulting Resources

- ◆ Approximately 400 Technology resources are located offshore, in India and Canada
- ◆ A portion of this headcount is used to augment our existing staff for applications development and maintenance projects
  - These projects are managed by Lehman employees
  - All code is reviewed and subject to our standard application change management procedures
- ◆ In addition, certain production functions (database administration, distributed operations and Quality Assurance and Testing) have been outsourced to two major Indian service providers, Tata Consultancy Services and Wipro Limited
  - Functions are performed in Lehman only “offshore development centers” which have been established at the vendor locations
  - Oversight for these functions is retained by employees of Global Production Services

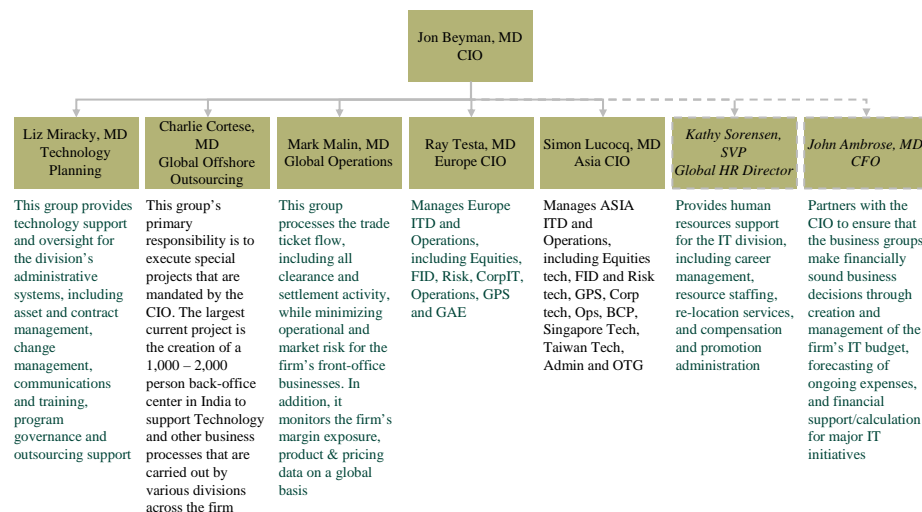
## Information Technology Division



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## Information Technology Division



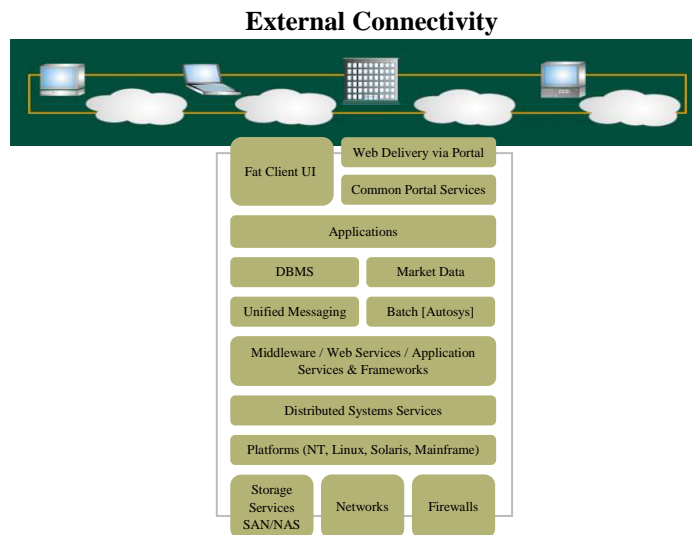
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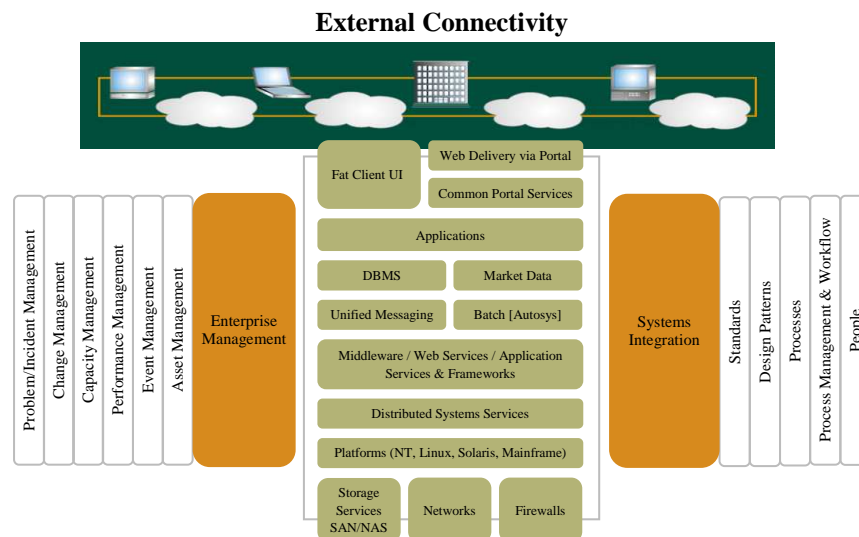
## Overview

- ◆ The purpose of this document is to illustrate how we address
  - The operational risk inherent in a large complex technology environment including
    - implementation of architectural and engineering standards,
    - ensuring reliable and consistent operating performance
    - data, systems and network security
  - Our plans for business continuity
- ◆ Since our recovery from the events of September 11, we have invested significant time and resources in both areas to greatly enhance the firm's resiliency, redundancy and recoverability from technology outages, or other disruptions

## The Changing Business Has Made Our Environment Much More Complex...



... Requiring More Robust Management Tools and Processes



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## The Lehman IT Production Environment

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## Underpinning the Applications That Run Our Business Is Our Architectural Framework

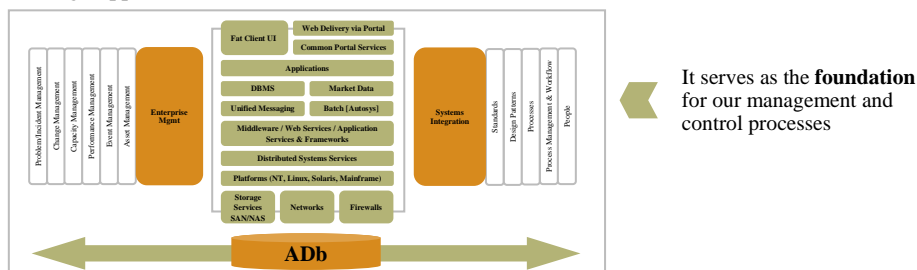
- ◆ Clearly defined architectural framework with globally enforced product standards for each part of the architecture stack
- ◆ Globally consistent across regions
- ◆ Global developer portal leveraged to communicate IT standards and solicit participation in the definition of new standards
- ◆ Includes product standards, best practices, design patterns, and code fragments to promote re-use
- ◆ Founded on an asset repository defining the environment and the relationships therein
- ◆ Consolidated IT scorecard in place to help measure effectiveness of standards deployment and compliance with key strategic initiatives

## This Framework Includes Standards and Common Services to Drive the Infrastructure

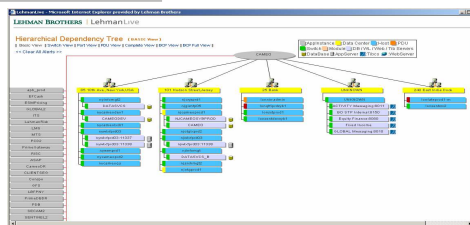
- ◆ Key global standards in the application architecture space include
  - Tibco enterprise messaging framework
  - BEA Weblogic application server
  - Informatica and business objects for enterprise reporting and business intelligence
  - IPlanet directory services and RSA security products to facilitate identity management
- ◆ Reusable software services to promote consistent levels of availability, performance and security (single sign on, entitlements, ETL tools, enterprise portal, content management, business reporting, etc.)

## The Asset Database (ADb) Is the Firm's Central Repository of All Assets and Their Relationships

- ◆ At its core – ADb holds information about and linkages between people, technology (e.g., applications, servers, etc.), and locations



And provides **transparency** into and **accountability** for all our assets and how they interact – in this case, a view of how an application is distributed across data centers – to monitor assets, reduce risk and effectively control the environment



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## With ADb as the Footing, We Have Several Initiatives Underway Aimed at Minimizing Potential Risk to the Firm

- ◆ **Business Continuity Planning:** Capture and prioritize applications and other resources required for business recovery
- ◆ **Incident Management:** Provide linkages to various notification groups to facilitate alerts in the event of a business incident or technical outage
- ◆ **Militarization of the Distributed Environment:** Eliminate practices that pose operational risks to an application (CRON, Local Admin, Automount)
- ◆ **Obsolescence:** Identify and upgrade obsolete hardware and software by application
- ◆ **Identity Management:** Ensure that all applications conform to standards for user access and account provisioning
- ◆ **Application Design Review:** Ensure developer standards are enforced and performance is optimized
- ◆ **Application Change Management:** Standardize code management practices to minimize risks associated with new releases

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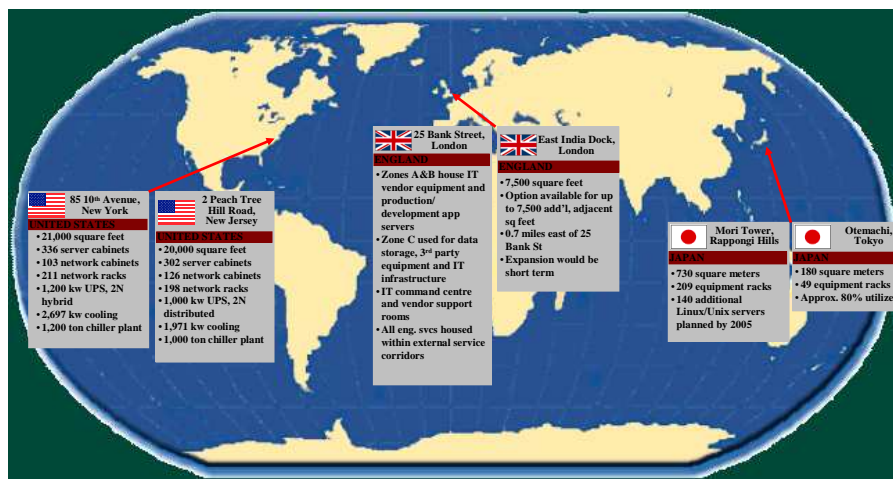
## We Have Established a Globally Consistent Daily Operating Environment

- ◆ Technology services are delivered to the firm via consistent, globally architected platforms and solutions
- ◆ Central operations model, aligning core services and functions globally, monitoring and supporting
  - Networks, market data, central processing, security, facilities, global change management, help desk, distributed operations, desktop support, central server support, database support, firewalls, email
- ◆ Processing platforms
  - Clearance, settlements and books and records are processed and maintained on a central IBM mainframe platform
  - Mainframe processing is outsourced to AIGT, operating out of Livingston, NJ with a backup facility in Fort Worth, TX
  - Lehman applications are processed on isolated, dedicated systems
  - All other applications (trading, risk, compliance, analytics, email, etc.) are processed on either Linux, Unix or Windows platforms, with a total of ~9,500 servers globally

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## Our Production Facilities Create Global Resiliency



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## “Mission Control” Is Provided By Our Central Operations Group

- ◆ Central NOC (Network Operations Center) operating 24 x 7
- ◆ Coverage of U.S. data centers and global network
- ◆ Monitoring via use of centrally deployed, globally support best-of-breed enterprise management software and SPIs (Smart Plug-ins)
- ◆ Operational support for market data
- ◆ Level 1 support for distributed server environment
- ◆ Operational support for exchange and client connectivity
- ◆ Centralized scheduling and backup support
- ◆ Global standard for distributed scheduling data backups/restores and monitoring
- ◆ Industry-standard products for scheduling and distributed backups, supported globally by central U.S. support teams
- ◆ Global operation of environment, covering all regions from central, offshore distributed operations team

## Distributed Technology Is Housed and Supported in Enterprise Class Facilities

- ◆ Dual enterprise data center strategy deployed in each of the three core regions – U.S., UK and Asia
  - Both data centers running live production
  - Technology, applications, networks and services load-balanced between the two sites
  - Synchronous replication of mission-critical applications and data
  - Diverse connectivity between local and remote facilities and branches
  - Militarization of facilities
    - 24 x 7 on-site security, CCTV monitored at corporate security HQs
    - Restricted access – no access permitted during trading hours
    - Global processes to facilitate problem and change management and event tracking
    - Central database for inventory/asset management
- ◆ Central support for core functions and services

## We Are Continuing to Standardize and “Militarize” Our Distributed Environment

- ◆ Central server support
  - Standardization on Sun/Solaris, Windows 2000 and Red Hat Linux operating systems
  - Centrally engineered release standards and patch management
  - Automated management for availability, utilization, problem management and software tracking
- ◆ Militarization of the server environment
  - Management of all production batch control jobs by operational groups from one central location
  - Removing Local Admin access from production Windows servers
  - Restricting access to data on remote systems from production servers to a predefined approved list
  - Locking down of systems access to only relevant application support members (via Etrust)
  - Logging all access and updates to production binaries (via Etrust)

## This Standardization Is Particularly Important in Database and Storage Support

- ◆ Database support
  - Standardization on UDB and Sybase for application development
  - Support of Oracle and MS/SQL for COTS applications
  - Globally engineered templates and best practices
  - Central, global operations and support model
  - Enterprise class security control
- ◆ SAN
  - Deployment of centralized SANs (Storage Area Networks)
  - Highly available, enterprise class hardware and software
  - RAID configurations to ensure availability and no loss of data
  - Ability to replicate data to a second facility in a real-time, synchronous fashion

## In Addition, Our Enterprise Data Warehouse Provides Centralized Information Services

- ◆ Products
  - Identifiers, product history origin information for Equities, Government and Corporate Bonds, Loans, Futures and others
- ◆ Pricing
  - Indicative pricing updates for all products – 1.5m updates per day
- ◆ Accounts
  - Baseline information and changes to customer accounts held by Lehman Brothers

## Securing the Desk Top Is Key to Our Risk Management Strategy

- ◆ Global standard for desktops
  - Auto discovery of assets
  - Automated “Software Update” auditing and reporting
  - Patch compliance reporting
- ◆ Desktops locked down to prevent un-authorized installation of software
- ◆ All software packaged, centrally pushed and audited – no deployment with authorization and approval through change control processes
- ◆ User data mirrored locally and replicated to second site periodically intraday
- ◆ All trading floor PCs have DIR (dual image reboot) capability

## Major Security Upgrades Have Been Rolled Out Globally Across the Enterprise

- ◆ Central, global engineering and support for policies, standards and guidelines, architectural control, incident response, awareness training and information risk control
- ◆ Globally deployed, centrally monitored intrusion and anomaly detection systems guard perimeter and internal infrastructure
- ◆ Security Operations Group monitors Intrusion Detection Systems (IDS) and Security Information Manager system 24X7 and provides first-line escalation for potential security incidents
- ◆ For reaction to issues the firm has a well developed, cross department Computer Incident Response Team (CIRT)
- ◆ Enterprise identity management system reduces risk of unauthorized access to critical systems and data
- ◆ User access to critical application and information resources is managed by TAC (Total Access Control), an enterprise user provisioning/de-provisioning system
  - Includes an automated and audited request and approval workflow engine, a database of who-has-what and automated connectors to target systems
  - Permits rapid provisioning/de-provisioning of access to critical systems
- ◆ Single-Sign-on
  - Provides secure access to critical systems and data while reducing the risk associated with numerous passwords

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## Significantly Enhanced Management Processes Enable Us to Better Control Risk

- ◆ Service level management – clearly defined workflows and SLAs
- ◆ Incident and problem management
- ◆ Central reporting of change, problems and incidents
- ◆ Application change management
  - Ensuring SOX compliance
  - Standard, supported, central repositories for source code
  - Documentation and management approval for changes
  - Proven testing and signoff in staging prior to production implementation
  - Packaging of changes for deployment via global deployment processes
  - Implementation of security and auditable logging
- ◆ Deploying the Remedy suite of applications to enable a robust, integrated environment to support these processes

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## Business Continuity

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## Operating Principles

- ◆ People – Critical staff are identified and current contact information is maintained through an automated process. Employees know their BCP role in the event of an incident
- ◆ Clients, Counterparties and Vendors – Current contact details are available offsite
- ◆ Vital Record and Documentation – Vital records and critical documents are available electronically and offsite
- ◆ Facilities – Adequate capacity and capabilities to support BCP needs
- ◆ Technology
  - Dual data center strategy globally
  - Critical applications have been identified and “tiered.” Adequate redundancy for applications, networks and market data are tracked via LehmanLive tools and stored in our central repository (ADb)
- ◆ Liquidity and Risk Management – Highly available systems allow a view of market and credit risk such that Lehman understands its positions and obligations at time of disaster
- ◆ Testing – Plans are tested and rehearsed periodically

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## “Campus” Recovery Model

- ◆ In the event of an incident in New York, affected business units will relocate to New Jersey and vice-versa
- ◆ Non-trading business units will displace non-critical staff at the recovery site
- ◆ Non-critical employees will work from home
- ◆ Lehman’s secure remote access system, Tocket, will be used to provide access



### New Jersey Capital Markets Recovery Site

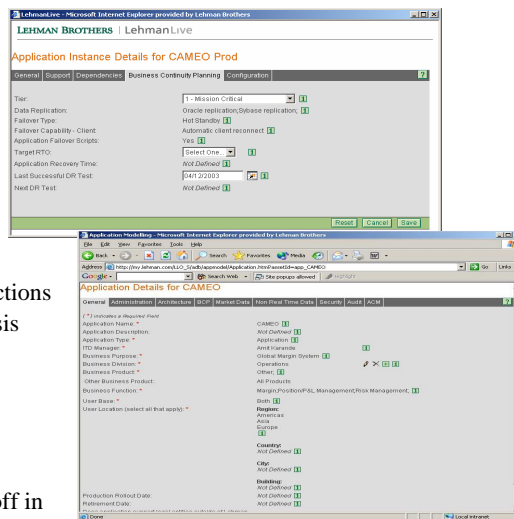
- ◆ Fully functional 416 desk trading floor
- ◆ Private Line Network – Replicated private lines allow a trader to log into a turret in New Jersey and see the same circuits as in New York (an industry first)
- ◆ Dedicated DR PCs at 70H are clones of users’ primary PCs at 745
- ◆ DR PCs are kept shut down except for weekly updates to enhance protection against cyber attack
- ◆ Staff test all PCs at least twice per year; many work there for the entire day

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## LehmanLive/ADb – Tracking Applications and Testing

- ◆ ADb serves as the repository for all BCP information
- ◆ BCP attributes collected for applications include
  - Application Tier
  - Business Function
  - Business Product
  - Business Division
- ◆ Applications are tied to business functions and the BCP Business Impact Analysis
- ◆ Application DR testing is tracked in LehmanLive
- ◆ Critical applications are tested at least annually
- ◆ Certified testing can only be signed off in LehmanLive by the BCP group

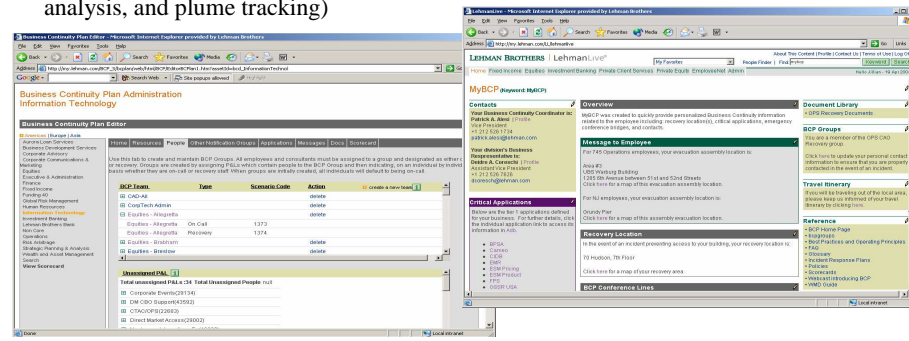


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## New Initiatives

- ◆ Acquisition of a new DR site in Cranford, NJ will accommodate both critical Operations staff and dedicated hot seats for traders
- ◆ BCPlans – A LehmanLive/ADb based planning and management tool that aggregates people, application, and location data into structured plans that can be delivered to wireless devices on demand
- ◆ Geographic Information System (GIS) – will allow the tracking and analysis of geographic data for business continuity purposes (e.g., transportation incidents, real estate risk analysis, and plume tracking)



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## Recent Incidents and Industry Tests

### 2003 Blackout

- ◆ 745 7<sup>th</sup> Avenue's lower stack (trading floors and support) are generator powered and never experienced a power failure or interruption of operations; all buildings had sufficient diesel fuel to last for several days
- ◆ Roughly 500 staff stayed overnight in 745, where there was water, food, and air conditioning
- ◆ The automated notification system made over 17,000 phone calls to staff to alert them of reduced operations on 15 August – by far the most the notification vendor handled for any one client
- ◆ New Jersey location was activated as a DR site and accommodated several dozen Private Client Services staff, who carried out normal operations

### Republican National Convention

- ◆ Lehman's incident response command center in NJ was activated and exercised
- ◆ 170 staff worked at the NJ recovery site during the RNC, carrying out normal business operations

### 2004 Hurricanes

- ◆ Lehman's automated notification system and toll-free BCP hotline was used to keep staff abreast of office closings
- ◆ Client calls were re-routed to the New York office, where staff took and processed orders normally

### Industry Test Participation

- ◆ 18 May 2004 – Bond Market Association/SIA tabletop crisis management exercise
- ◆ 9 October 2004 – Futures Industry Association street-wide futures DR test

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## Appendix A: Cyber Terrorism

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### The Frequency and Severity of Virtual Attacks Are on the Rise

#### **We are all vulnerable**

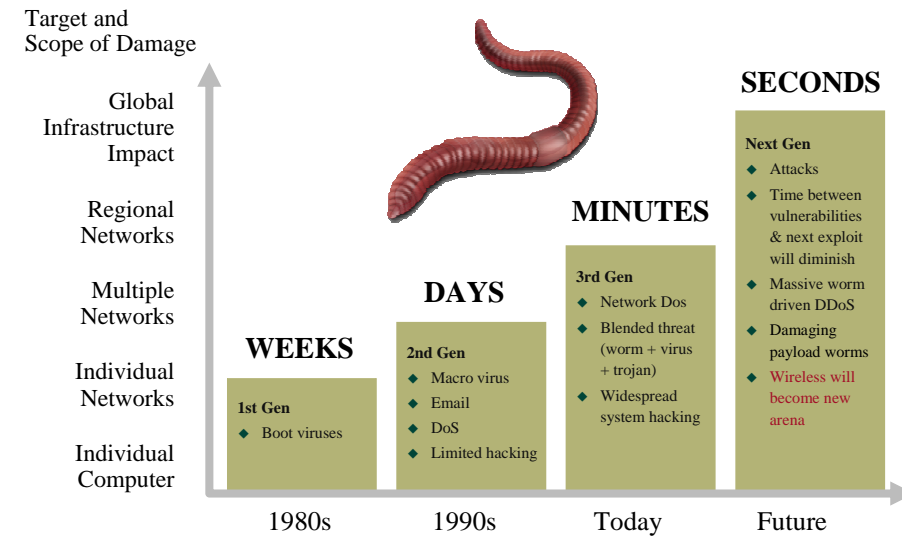
- ◆ Attacks on are the increase and are easier to manufacture – the tools and knowledge are readily available on the Internet
- ◆ Worms have become more prevalent and potentially more damaging than a virus. Once initiated, a worm requires no human intervention to spread – the result is anything from data loss, to a network slow-down, to complete disablement
- ◆ Currently, most attacks are focused on Microsoft, but could target other platforms
- ◆ Why write malware? The current trend is for profit
- ◆ Could be the next form of terrorism

Attack sophistication increases while intruder sophistication decreases

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## Experts Believe Soon a Worm Could Severely Damage the Global Infrastructure Within Seconds

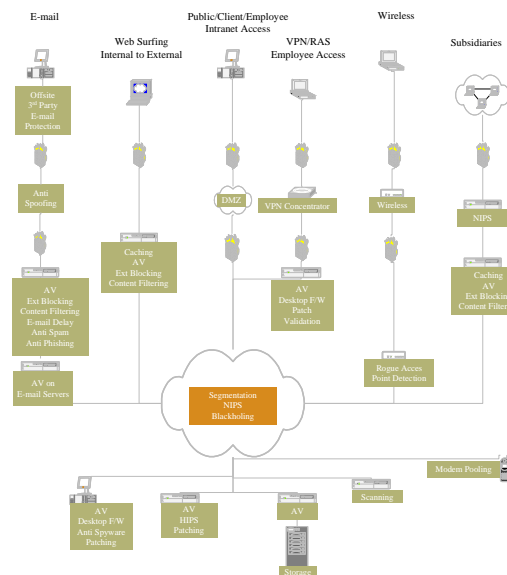


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## Manage Threat Vectors

- ◆ Identify all possible input vectors and reduce entry opportunity to zero
- ◆ New technologies allow us to exercise greater control w/o limiting business
- ◆ Results in several projects which will have the combined effect of restricting all unmanaged or unprotected access to our network



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## Mitigation Strategy

**Ensure the safety and soundness of our networks by maintaining our level of reaction/recovery, while increasing protection and detection capabilities**

- ◆ Risk reduction and mitigation must address
  - Protect
    - Insure risk to environment is at acceptable levels
    - Identify and reduce vulnerabilities
    - Know where they are and when they are fixed
  - Detect
    - Insure we can identify dangerous or anomalous activity with sufficient time to react
    - Identify worm activity if it enters our environment
    - Identify and remediate any suspicious activity that may increase worm risk
  - React
    - Stop a threat from propagating and eliminate it from our environment using the appropriate tools and resources
    - Change network configuration in response to risk
  - Recover
    - Ensure sufficient tools and proactive processes to provide for rapid recovery of essential services
    - Bring systems back to operational status.

**Protect Detect React Recover**

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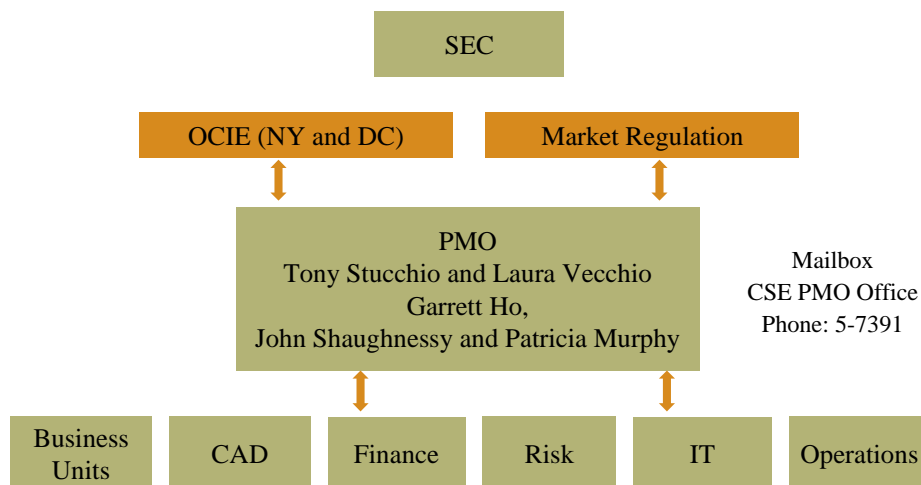
**Examination Process & Closing  
Remarks**

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## Examination Process

- ◆ We have established a central CSE Project Management Office (PMO) to assist in the examination process
- ◆ Please direct all requests for information whether for documents, reports, interviews or meetings to the PMO Office directly
- ◆ Requests can be directed to either the CSE PMO Office e-mail address or to the PMO- Primary Contact. PMO contacts have been assigned along both Product Lines and Functional Areas (the contact sheet is provided on the last page herein)

## Examination Process



## Examination Process

◆ Conference Rooms have been reserved as follows:

- Market Regulation
  - Conference Room 30C
  - Phone: 212-526-7452; Internal dial 5-7452
  - Polycom 212-526-9307; Internal dial 5-9307
  
- OCIE –NY
  - Conference Room 20B
  - Phone: 212-526-8938; Internal dial 5-8938
  - Polycom 212-526-8984; Internal dial 5-8984

## Examination Process

- OCIE - DC
  - Conference Room 20E
  - Phone: 212-526-5585; Internal dial 5-5585
  - Polycom 212-526-8914; Internal dial 5-8914

## CSE PMO Office Information

### ◆ CSE PMO Contacts:

- CSE PMO Office – 212-526-7391; Internal dial 5-7391

### ◆ PMO Managers:

- Tony Stucchio – 212-526-0704; Internal dial 5-0704
- Laura Vecchio – 212-526-2423; Internal dial 5-2423

### ◆ PMO Staff:

- Garrett Ho – 212-526-3001; Internal dial 5-3001
- John Shaughnessy – 646-497-4899; Internal dial 2-4899
- Patricia Murphy – 212-526-7307; short dial 5-7307

### ◆ E-mail Address:

- CSE PMO Office “CSEPMOOffice@EXAMNYC.lehman.com”

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## CSE PMO Office Information

### PMO Contact List

PRODUCTS	Primary Contact	Phone	E-Mail Address	Secondary Contact	Phone	E-Mail Address
1 Interest Rate Products	Garrett Ho	+1 212 526 3001	gaho@lehman.com	Tony Stucchio	+1 212 526 0704	astucchi@lehman.com
2 High Grade Credit	John Shaughnessy	+1 646 497 4899	john.shaughnessy@lehman.com	Tony Stucchio	+1 212 526 0704	astucchi@lehman.com
3 Liquid Markets Proprietary	Garrett Ho	+1 212 526 3001	garrett.ho@lehman.com	Tony Stucchio	+1 212 526 0704	astucchi@lehman.com
4 CDO's	John Shaughnessy	+1 646 497 4899	john.shaughnessy@lehman.com	Tony Stucchio	+1 212 526 0704	astucchi@lehman.com
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